Farmer COOPERATIVES

United States Department of Agriculture/Agricultural Cooperative Service
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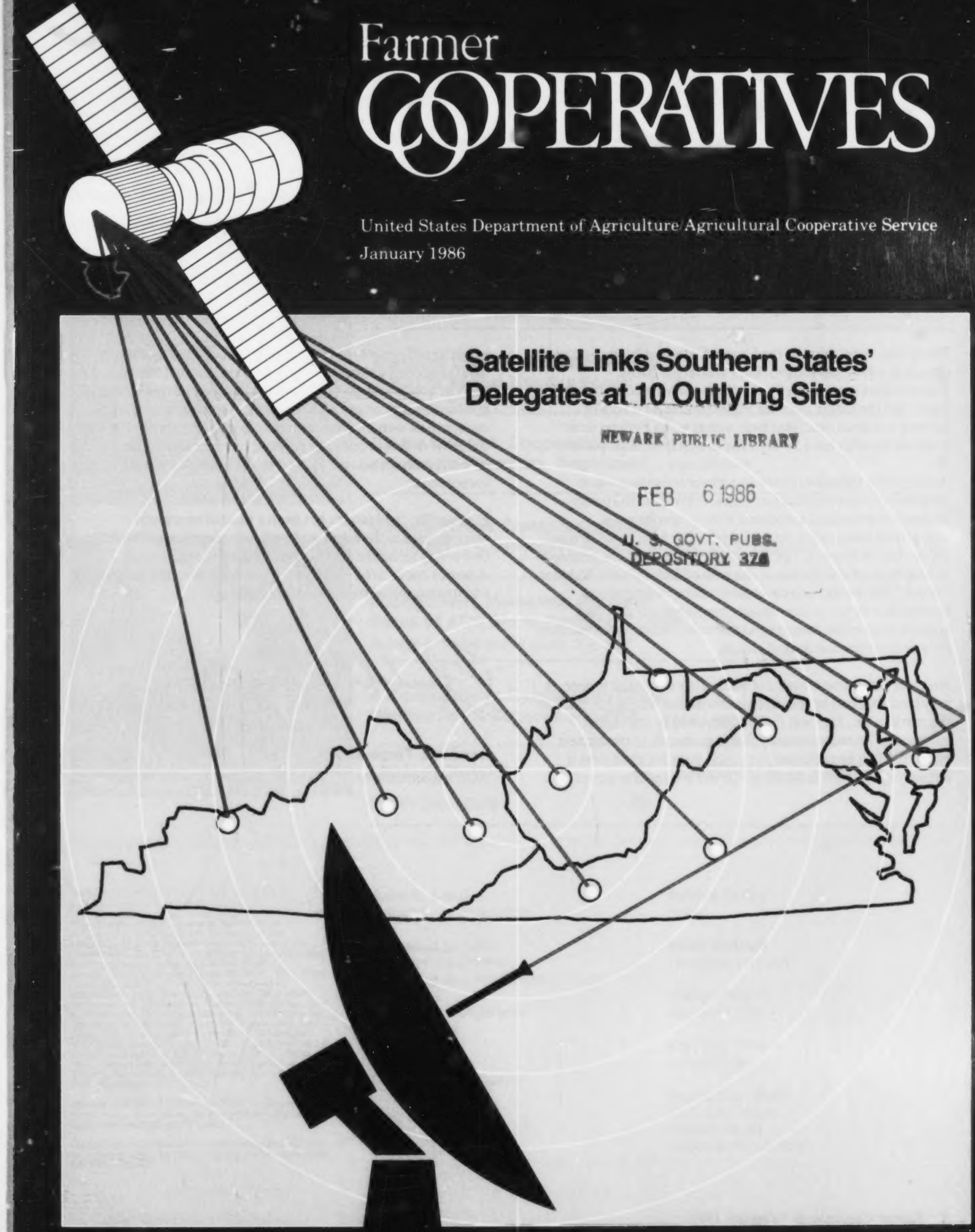

Satellite Links Southern States' Delegates at 10 Outlying Sites

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Farm Credit Bailout and the Economic Organization of Production Agriculture

Production agriculture in the United States has been constantly changing, often resulting in fewer and larger farms. Policymakers have given lip service to the virtues of the "family farm" but the reality of policy impact on the structure of farming has been neutral at best, and at worst Federal farm program benefits have favored the largest farm enterprises.

A new policy threshold poses enormous consequences to cooperatives and farm communities. It involves the policy proposal to place land associated with nonperforming agricultural loans into a capital corporation potentially beyond the control of farmers. The purpose is laudible, if it is designed to hold land off the market so the rash of farm failures does not "break" the market and cause land values to deteriorate further. In a sense, it is an orderly marketing concept that protects continuing farmers and financial institutions alike from further deterioration in land values.

An aspect of this proposal, not adequately discussed to date, is how land acquired by the capital corporation will be put back on the market; i.e., how will the land acquired by the capital corporation be redistributed? Will it go simply to the highest bidder? Will it be packaged to provide younger producers a chance to get a start in farming? Or will it be sold to already established farmers, off-farm interests such as corporations, insurance companies, tax shelter seekers, mutual funds, and so on. The consequences for the future economic organization of production agriculture are enormous. Cooperatives, looking out for their own interests cannot afford to remain neutral on the farm structure question generally, or specifically, on the redeployment of assets acquired by the proposed capital corporation.

Historically, land tenure has been a topic of enormous consequence to the fabric and well-being of society. The future ownership structure of production agriculture and rural America needs to be planned for, not just left to the unintended and unanticipated consequences of actions.

Randall Torgerson

Randall E. Torgerson
ACS Administrator

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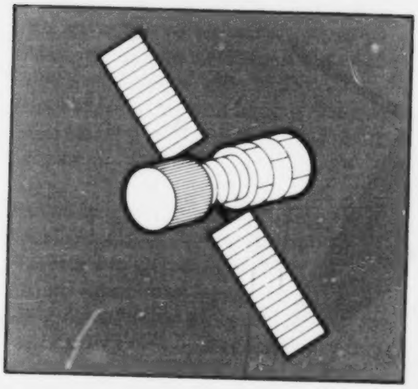

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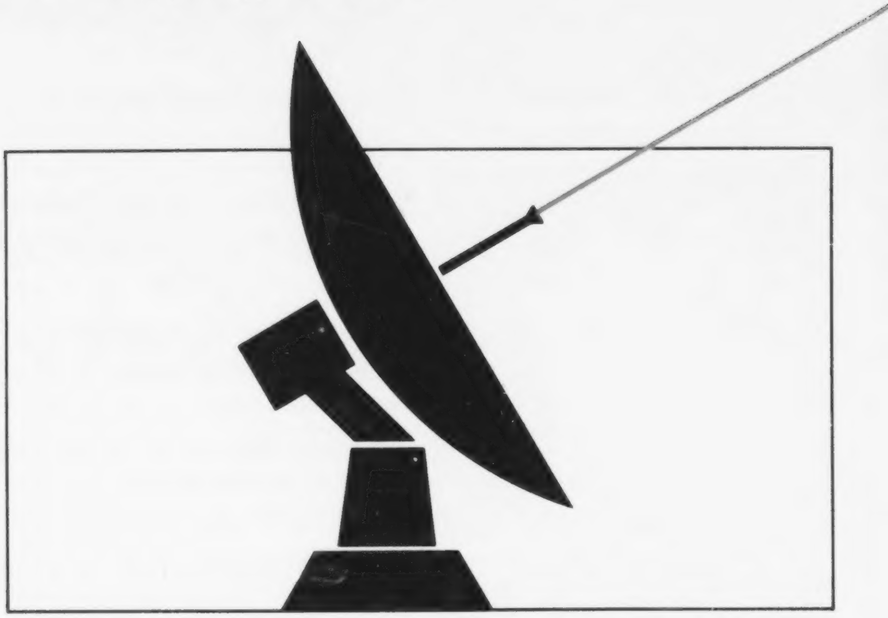
Satellite Links Southern States' Delegates at 10 Outlying Sites

Editor's Note: Normally, condensed reports of cooperative annual meetings are carried in the Action column of the magazine. Due to the SSC's innovative use of the video teleconference and its wide application to the cooperative community, this annual meeting was given wider coverage.



Might the format of the traditional annual meeting, a major vehicle cooperatives use to maintain contact with member owners and provide an accounting of the organization's progress, be enhanced by adapting space-age technology?

Southern States Cooperative (SSC), Richmond, VA-based farm supply and grain marketing regional, decided to test the application to its 62nd annual meeting in November. For many years in its 84-year history it has convened one central meeting at Richmond. This year, a smaller core group reached out from Richmond via satellite linkages to members participating in the annual meeting at 10 other sites in SSC's 5-State territory.

The results? More delegates were reached; the bulk of the traditional format was retained; and costs were cut nearly in half. Member reaction was quite positive judging from results of an evaluation poll conducted at each site. SSC directors will decide at a future board meeting whether to repeat the satellite linkage for 1986.

The cooperative's videoconference was viewed by members and guests by means of broadcast signals beamed to satellites and relayed back to earth. This was the first time a U.S. regional farm supply cooperative had used the technology for an annual meeting.

Patrick Duffey
Editor

Growing Share of Market

Speaking from the originating videoconference in Richmond, President Gene A. James said, "deflation in the price of major commodities handled by the organization made the difference between perhaps a record year and one in which dollar volume and net savings (margins) declined."

James reported SSC's volume of $676.6 million was down 3 percent, "but there is every evidence we markedly increased our share of the market. Net margins after taxes were $5.7 million, down from $10 million in 1984. SSC moved a record amount of fertilizer tonnage. Feed tonnage was only slightly below the 1984 outstanding sales record, in spite of the abundance of homegrown grains and forages. Petroleum gallonage and total farm supply volume grew. The grain marketing division finished the year with good net savings (margins), from which it paid a healthy patronage refund. This was in stark contrast to others in the grain business."

The retail store computer system will make the nearly 200 branch locations and managed local cooperatives stores more economical without having to increase costs. All these stores will be functioning on the system by summer and be connected to the regional's headquarters in Richmond. Some centralization of stores with combined management is expected. (Nearly 300 private dealers associated with SSC may soon have the opportunity to use this or a modified system.) SSC had the highest gross margins since 1980, but net margins were up only 2.7 percent. Refunds from interregionals and an affiliated insurance company were $2.5 million compared with $1.9 million in 1984. "We are facing the toughest year in decades in further leaning the system and determining the proper economical size needed for both the wholesale and retail distribution systems," James said.

Grain marketing volume was $118 million, compared with $112.5 million in 1984. Bushel volume was 32.7 million, compared with 26 million a year earlier. Southern States' branch locations and managed local cooperatives had a combined retail volume of $457 million, a small increase from prior years, but combined net margins declined. "While deflationary forces drove down the prices of our major commodity lines, general inflation drove up most operating costs," James said.

The program also included a report by board chairman M. Willard Miller of Lo-

cust Grove, VA, videotaped welcomes from governors or agricultural commissioners of the five States involved, videotaped statements by each of SSC's 15 directors, confirmation of newly elected directors, and reappointment of a public director.

Wayne Boutwell, president of the National Council of Farmer Cooperatives, Washington, DC, discussed the status of current agricultural legislation in Congress affecting cooperatives such as exports, farm bill, marketing loans, cargo preference, and Farm Credit System.

Attendees Liked Format

Jerry Gass, director of communications, indicated members were pleased with the new format. A survey of attendees at Richmond and area sites in Virginia, West Virginia, Kentucky, and Maryland, indicated 65 percent of those who had attended a previous annual meeting in Richmond favored the new concept; 94 percent said they would attend another video annual meeting if offered; and 84 to 97 percent favored various segments of the program. Most segments were carried over from previous meetings while others were modified to fit the new format.

"We did a big chunk of the preparations inhouse except for the technical end. If repeated another year, we could probably do much more. SSC has a video facility with two staffers. The corporate communications staff also prepared a lot of the materials including commercials and artwork," Gass said.

Estimated cost of a full program for 1985 in Richmond like other years was set conservatively at $220,000, (20 percent cost increase from 1984) compared with about $140,000 costs on the actual 1985 format. A lot of the savings came in the reduced time and number of regional staff people needed to produce the annual meeting. In the past, SSC also flew in a lot of delegates and housed them for two nights in five hotels in Richmond. This year, some of them drove 150 miles round trip for the 1-day meeting, but most were much closer to their homes.

Rather than attend the meeting at Richmond, I opted to participate at one of the sites linked by satellite to a rural golfing country club near Front Royal, VA, west of Washington, DC. The prolonged autumn weather kept rain at bay, but also held down attendance at some centers while some farmers took advantage of sunshine to harvest more of their grain.

Diversity of Membership

Only the satellite dish parked outside the clubhouse gave any indication of something unusual transpiring. Inside, about 200 delegates and guests were seated around tables to view and hear the meeting proceedings beamed in from Richmond onto a large screen at the front of the hall. Largest attendance at any one of the 10 sites was about 375 at Lexington, KY. Most sites were in hotels. A State park and civic center also were used.

The group at Front Royal was a diverse representation of SSC's membership, a mixture of farmers from the hills of West Virginia to the sprinkling of urban store customers from the Virginia suburbs of Washington, DC. About 20 percent of Southern States' business is considered urban.

Most of the meeting emanating from Richmond was conducted before lunch. Telephone connections from Richmond to the outlying sites allowed communications with SSC staff at each site over mechanics of the program as well as intercommunication between delegates and management panelists during the open forum and director election portions of the program.

The afternoon session reconvened at 1:15 p.m. for confirmation of elected directors, appointment of a public director, and closing comments by Chairman M. Willard Miller. The day opened at 9 a.m. with coffee, refreshments, and registration. The business meeting concluded at 2 p.m. and was followed by a short localized program at each site for the presentation of local awards and citations for outstanding performance of regional and local managers. ■

Davis Named Farmland's Top Local Manager

Bennie C. Davis, general manager of Stratton Equity Cooperative Company, Stratton, CO, has been chosen the 17th annual recipient of the Dreyer award for outstanding local cooperative management by Farmland Industries, Inc. The award is named after the late Frank Dreyer, former member of the Farmland board.

Davis has been manager of the Stratton cooperative since May 1968. He has built a strong management record. The association has served local farmers for more than 53 years. The cooperative has installed a credit card fuel service system and delivers fuel to its larger operator-patrons in large tankers. The cooperative also has placed anhydrous ammonia storage tanks in strategic locations in its trade territory. A new 900,000-bushel elevator under construction will be completed in 1986.

During fiscal 1985, sales by the cooperative were nearly $21 million. It generated margins of $339,000 compared with $288,000 in 1980. Assets of the cooperative exceed $8 million. Stratton provides grain marketing services and a full line of farm supplies to its 1,800 members. There are 63 full-time employees. Davis also is active in the community and serves as a director of Servi-Tech, Inc., Dodge City, KS.

Members Quiz Management Panel in SSC's Annual Meeting Forum

Delegates gather amidst gold carts in the shadow of a satellite dish at the Bowling Green Country Club near Front Royal, VA. It was one of 10 outlying sites used by Southern States for its 1985 annual meeting.

One of the more interesting aspects of Southern States Cooperative's (SSC) annual meeting program has been its open forum. Delegates have the opportunity to quiz members of a five-person management panel about any aspect of the business. This year, the panel was moderated by Robert Bryan, SSC vice president, member and public affairs.

Panelists were Gene James, president and chief executive officer; Jack A. McHugh, group vice president of wholesale services; J. A. Hawkins, vice president and treasurer; H. K. Swann, group vice president of retail and marketing services; and Dr. Joseph Coffey, director of economics and planning. Program time limited the number of questions from each meeting site, but response to the remaining questions from delegates will be carried in a future issue of SSC's *Cooperative Farmer* monthly patron magazine.

The first question came from a Virginia delegate who asked about talks with FCX, Inc., neighboring regional cooperative serving North and South Carolina and currently under Chapter 11 reorganization imposed by the Federal Bankruptcy Court after Columbia Bank for Cooperatives called in its loans to FCX.

President James, who said he'd been anticipating the question but not so soon in the forum, said FCX had indicated an interest in selling North Carolina facilities to SSC. "Negotiations are still underway and an announcement could come in a few weeks (late December or early January).

A Baltimore delegate asked why small- and medium-sized farmers were penalized by higher prices (on production supplies) than those charged larger farmers.

Swann said, "SSC has always tried to treat farmers equitably in view of volume and services required. There are times (however) when we have cost savings (due to volume) that should be passed on to the larger farmer."

Greater Share of Market

When asked by a farmer from West Virginia why he expected higher SSC sales in view of the continuing farm depression, Coffey said he hopes increased sales will come from a higher share of the market (currently about 20 percent) and better service to urban customers. Regarding a Virginia inquiry about the retail operations, Swann told delegates the computerized system in the stores would pay for itself in the second year and help keep costs and prices in line.

At Lexington, a Kentucky delegate asked about SSC's salary and wage costs. James advised him SSC competes with general industry for employees. For the past 2 years, SSC has had a conservative program on salaries and wages. An aggressive training program for personnel helps reduce the number of people needed.

In response to an inquiry by a Maryland delegate about gas prices being greater at the farm than at the pumps in town, Swann said, "There has been a big turnaround in marketing gas in the past 10 years. There has been a lot of mass merchandising. Cost of a truck to deliver fuel to the farm is growing and currently runs $65,000 to $85,000. James said farmers must make the economic choice of picking up the fuel in the city using their own equipment and time, or having it delivered by the cooperative to the farm on a timely basis.

A delegate at Salisbury, MD, wanted to know what was the liability of the patron member against claims for damages related to spills at the farm? The patron has no liability, Hawkins told him, if spills are made by SSC employees. SSC becomes liable for claims and currently has little liability insurance protection. (Satisfactory coverage is generally unavailable except at prohibitive premiums, SSC management later explained.)

Farm Credit System Concerns

How will problems of the Farm Credit System (FCS) affect SSC and its patrons, asked a delegate at Front Royal, VA. Hawkins said the most direct loss to SSC and members would be the $8 million investment in the Farm Credit System. "We don't know the bottomline risk, but expect costs to go up. We may be unable to borrow from the FCS at any cost because it won't have the money. However, we expect the Federal Government to help keep it solvent."

An eastern Kentucky farmer was concerned about the outlook for the tobacco program and the fear of its being abolished. Economist Coffey said he expected the existing program to continue, but with farmers carrying more of the cost. "We may be able to export more in the future. It's the largest cash crop in Virginia and Kentucky."

With milk prices declining, what is the outlook for dairy feed prices, a Virginia delegate inquired of Dr. Coffey. "Feed prices usually follow the same trend as grain prices (currently low)." President James said SSC had been seeing a paradox or higher feed prices in recent weeks due to an unusual combination of circumstances. "I don't expect the situation to last," he said.

Portions of SSC's 5-State territory were hard hit last fall by heavy rain and flooding rivers, the worst in SSC's 62-year history. Particularly hurt were mountain valley areas of southwestern Virginia and eastern West Virginia. Storms were generated by one of the late fall hurricanes spinning up the East coast. Heavy rains severely damaged some homes, farm operations, crops, livestock, and SSC facilities.

The situation prompted a Virginia delegate to ask if SSC offered any flood relief to farmers? President James said the cooperative has a program to handle the cost of replacing losses both at its stores and farms. "We will do whatever we can to help those who suffered so much. Southern States incurred about $3 million to $4 million in damages to its facilities and inventories. We have good insurance coverage, however. We want to do what we can to help people who have suffered (from the storm) in addition to recent tough economic years." ■

AIC Chooses MMI's Thomas to Succeed Hallberg

David C. Thomas, director of member services for Milk Marketing, Inc. (MMI), Strongsville, OH, has been named president of the American Institute of Cooperation (AIC) in Washington, DC, to succeed Owen Hallberg who took early retirement last August.

Thomas, a native of Missouri, brings 15 years' professional experience in agriculture and cooperatives to his new position. He earned bachelor and master degrees in agricultural education from the University of Missouri and has completed course work on his doctorate in educational administration.

Thomas has been keynote speaker for the youth scholars at AIC's National Institute of Cooperative Education summer conference since 1978. He has served on AIC's board of trustees and its national committees. At MMI, Thomas directed activities of seven division offices and 155 personnel in providing services for 8,500 dairy farmers. At one time he was vice president for member relations at MFA, Inc.

Thomas is a past president of the National Future Farmers of America Alumni Association, former chairman of the National Agricultural Education Advisory Council of the American Vocational Association, and a former secretary of the Missouri Institute of Cooperatives.

Cooperatives: The Way They Were—Cooperatives are not big when compared with their competition. They are only big when compared with what they used to be. —Melvin E. Sims, FS Services, Inc., *Farmer Cooperatives*, October 1978.

Perishable Commodity—Without vision, of course, cooperatives, like everything else on this earth will perish, regardless of how good they are or have been.—D.W. Brooks, Gold Kist Inc., *Farmer Cooperatives*, October 1979.

RX for Survival: Cooperative Effort of Leaders, Members, Employees

Editor's Note: The author and ACS Administrator Randall Torgerson discussed cooperative structure at last summer's National Institute on Cooperative Education at Kansas State University. The perspectives of each author are being carried in separate stories in this issue.

A successful cooperative structure is built on a solid foundation of members, leaders, management, and employees growing together. It will take the cooperative efforts of each link for the organization to survive the current economic crisis in agriculture.

The cooperative structure is like a building. A building must have a good foundation. Individual members are the foundation on which the cooperative is built. A building has walls and a framework tying solidly into the foundation.

So too, the cooperative board of directors must be firmly connected and rest on the foundation or the membership. A building must have a good roof and siding to keep out the rain and wind. Employees of a cooperative must be capable of taking care of the day-to-day activities and be on guard for any cracks in the cooperative's structure.

As we create larger buildings, all three components must be strengthened accordingly. As a cooperative grows, we need a more solid foundation or membership. The framework or board of directors must be more dedicated and accept increased responsibility. Finally, we will need qualified management and employees to finish out this larger cooperative structure.

All components of this cooperative building must grow together. It would be useless to have strong dedicated members, but a weak board of directors and incompetent employees. On the other hand, a dedicated board of directors would have its hands tied if it was not supported by the membership and the most competent management it can find. Finally, a cooperative will collapse, even if it has the finest employees in the world, but if the framework and foundation are not adequate to support the total building.

Ivan Strickler, President
Mid-America Dairymen, Inc.

Loyalty Not Automatic

Cooperative membership loyalty is not automatic or inherited. It must be earned. Each new generation must be convinced it is in its best interest to patronize the cooperative. Loyal members are informed. We must communicate, be honest, and straightforward with members, even though sometimes it may prove somewhat embarrassing. The board and management of a cooperative must do everything possible to avoid suspicion.

There are many ways to communicate with the membership, depending on the size of the cooperative. If small, members may visit directly with the manager whenever there is a question. Obviously, as cooperatives grow in size and have hundreds and even thousands of members, this is no longer feasible. Newsletters, newspapers, and magazines can be used to good advantage if timely and well written. The annual meeting and smaller informational meetings also can be effective if programmed properly.

Effective communication means we must listen at least half the time. Feedback from the membership is vitally important. We can get it through employees, directors, or even membership survey cards. Membership meetings should have question and answer periods. This can be done even in large meetings using question cards. The member simply writes his question or comment on a card deposited in a box and picked up by cooperative employees. Often, many questions can be addressed in a short time if issues are faced head-on.

It is important to keep the cooperative members involved as much as possible in the operation. Many times a suggestion from just one member eventually results in a change of operating policy. Get members involved in letter-writing campaigns when issues come up at the national or State level affecting the cooperative or agriculture in general. Wives often will be more willing to write letters than the men and we should encourage them to do so. More and more women are becoming involved as directors or in other leadership positions in the cooperative.

Also, we should give special attention to the young farmers who represent the cooperative framework of tomorrow. A special young farmer informational program can be very effective if properly organized. We can receive some excellent ideas from this group. They are more willing to change and less apprehensive of failure. They are the computer-oriented generation and make their decisions based on facts and figures, not just feelings.

Responsibility of Directors

Serving on a cooperative's board of directors is not just an honorary position. The director has significant legal responsibility. There is a fiduciary duty to the cooperative, its members, other directors, and the cooperative's creditors. Directors should be interested in the cooperative and patronize it actively. It is difficult to perform effectively on a cooperative board, if you are doing business with a competitor on the other side of town or in another town a few miles down the road. A director should automatically relinquish his position on the board when he is no longer involved in the farming operation.

A director must keep informed. Spending a few hours at a board meeting once a month is not adequate to keep up with the fast pace of cooperative and industry activities. Communication between the manager and the director is imperative.

This can be done in person, by telephone, or some type of newsletter depending on the size of the cooperative. In most cases all three will be used. Special attention should be given to newly elected directors who have not served previously in this capacity. It is time well spent for them to spend a day or two with the cooperative's management so they can be updated on its activities and problems. This helps them better understand responsibilities of the directors. Also, special seminars are helpful.

Responsibilities of a director and manager should be defined well in writing so they can be understood by all concerned. Many cooperatives have found themselves in trouble because directors have ventured into areas of management responsibility or because management has attempted to become involved in directors' responsibility. If management is weak, directors will attempt usually to fill that void. On the other hand, if the directors are not pulling their share of the load, management may overstep its bounds. Directors and managers must work together as a well-balanced team. The board also must be willing to respond to inevitable change.

Employees Vital to Operation

Don't overlook the cooperative employees other than the manager. They are vital to the operation. Employees need to be informed about the operation of the cooperative. If not given the facts, they will pick up information via the grapevine, and it may not be factual. In large cooperatives, the employee doesn't have an opportunity to visit with the manager on a regular basis. They must be informed by a magazine, newspaper, newsletter, or contacts with supervisory personnel.

Don't overlook the importance of informing employees who have contacts with members, such as truck drivers. The persons who pick up milk at the farm, deliver feed or fuel, or perform other on-the-farm services usually have more contact with members than anyone.

As in the case of new directors, it is important new employees be given consideration. Often, new employees are not familiar with the cooperative philosophy and don't understand the reason for the cooperative's existence. A special training session for new employees can be time well spent. Here again, special seminars like the National Institute on Cooperative Education can be helpful.

Other Structural Needs

Special elements are necessary for survival of the cooperative structure. One of the most important is adequate financial stability. It is sometimes hard to understand why a cooperative member will be willing to invest in equipment on his farm to make his operation more efficient, but yet is reluctant to invest in the efficiency of his cooperative. Here again, communication with the member plays an important role. A cooperative seldom survives if it gets into a weakened financial condition.

The importance of each component of the cooperative working and growing together cannot be overemphasized. This includes members, directors, and employees. If we really look at the workings of a successful cooperative, we find all groups share in its success. On the other hand, if a cooperative deteriorates, in most cases all share in the responsibility for its demise. ■

Coonrod New AGRI Chief After Richard Resigns

Richard Coonrod, 54, Edina, MN, a retired Pilsbury Company executive, has been named president of AGRI-Industries, Inc., at West Des Moines, IA. He succeeds Harold "Hal" Richard who resigned but continues to work with the cooperative on a consultant basis and coordinator of special projects.

Coonrod is the second president in the cooperative's 84-year-old history to come from private industry rather than a cooperative background. He is a native of Kansas, had been with Pillsbury for 28 years, and most recently headed its agricultural business unit and served as executive vice president before retiring in 1984.

AGRI lost $9.2 million in fiscal 1984. A $5.8 million insurance settlement allowed it to show a margin of $1.8 million in fiscal 1983. In fiscal 1982, the cooperative lost $2.8 million. Figures for fiscal 1985 won't be released until AGRI's annual meeting in 1986.

Gold Kist Buys Most FCX Facilities in S. Carolina

Most of the facilities in South Carolina owned by FCX, Inc., could be sold to Gold Kist Inc. of Atlanta if approved by the U.S. Bankruptcy Court at Raleigh, N.C., about mid-January. FCX recently announced plans to sell 21 of 25 farm supply stores, a feed mill, and several grain elevators to Gold Kist—about 20 percent of FCX's total assets.

Jack R. Taylor, president of FCX, said Gold Kist also had agreed to purchase all of FCX's egg production, hog, and poultry operations in North and South Carolina. If approved by the court, the deal could be closed by Jan. 15. On Sept. 17, FCX filed for U.S. Bankruptcy Court protection to permit reorganization following 4 consecutive years of losses—$8.3 million between 1982 and 1984 and $9.3 million in 1985. Jim Bass, director of communications for FCX, said the agreement did not call for Gold Kist to assume any unpaid accounts FCX may have with South Carolina farmers.

Outside Forces Precipitating Study of Changing Cooperative Structure

The current economic stress from the agricultural depression of the 1980s may be precipitating long overdue attention to the structure of agricultural cooperatives to make them more competitive in the future.

Recent studies have focused attention on cooperative structure. Here's what they say:

- farm supply regional cooperatives are chided for competing among themselves rather than with noncooperative competitors and duplicating facilities, transportation, and management. While distribution is a major function of these regionals, procurement is viewed by each as a primary competitive tool.

- today's federated cooperative grain system can't operate effectively and efficiently in many areas of the United States. The system suffers from too many small participants (locals), lack of control and commitment to the system, financial constraints, and often lack of management expertise.

- Farm Credit System has too much exposure to loan losses as now constituted and needs to be overhauled by transforming the system into a centralized national bank holding company capable of catering to all of rural America's credit needs, both on and off the farm. (Wall Street Journal, July 22, 1985)

- a southeastern study shows several district Banks for Cooperatives can reorganize into one regional Bank for Cooperatives and handle most large accounts more efficiently and effectively with little if any participation from the Central Bank for Cooperatives.

Five major economic factors are driving cooperative structure changes: farm structure, structure of competing firms comprising an industry, capitalization, influence of technology and transportation on cost structures, and policy initiatives determining the rules and helping mold the business operating climate.

Randall E. Torgerson
ACS Administrator

How should cooperatives position themselves for the future? Many local cooperatives are merging after studies show returns to sales, assets, and equity are declining due to overcompetition among them. Many mergers or consolidations have been long overdue.

At the regional level, discussions between Farmland Industries and Land O'Lakes, and Associated Milk Producers, Inc., and Mid-America Dairymen continue.

Examination of cooperative structure and control is critical because:

- intergenerational transfer of cooperative membership means some members are not as well grounded as their predecessors in the whys and wherefores of cooperatives;

- a number of cooperatives have hired extensively from outside cooperative circles;

- as a result, the literacy rate on cooperation among members and employees may be lower than at anytime in recent history;

- lack of member capitalization means some cooperatives have sought or are seeking structural solutions not in keeping with the basic character of cooperatives as a means of regaining financial stability;

- for policy reasons, there is need to preserve the user-owner character of the cooperative or else it becomes another business coincidentally owned wholly or partially by farmers.

A recent Purdue University study supported by ACS, found cooperatives proved to be as efficient and operated at cost levels as low or lower than their proprietary counterparts. Financial performance of small cooperatives was better than small proprietary firms, but performance of some large cooperatives was inferior to large proprietary firms.

Structure and Control Questions

We need to ask some penetrating questions about structure and control when considering reorganization, to keep the focus of cooperation on member-owners and benefits flowing to them.

Are cooperatives adequately managed? Merger discussions among cooperatives are often precipitated by the failure or near failure of one of the participants. This raises crucial questions about the competency of cooperative management.

One cooperative leader in remarks at last year's Graduate Institute of Cooperative Leadership, said the lack of decisive management is the primary problem in cooperatives. Corrective action, not necessarily merger, is needed, he believes.

This theme is echoed by Richard Bell, chief executive officer of Riceland Foods. He argues managers must make business not political decisions. The Purdue study concluded success and survival of both cooperative and proprietary firms appears to depend more on management than volume.

Do mergers accomplish savings objectives? A recent feature article in ***U.S. News and World Report*** on corporate mergers indicates they seldom accomplish the potential savings identified in premerger feasibility studies. The reason is lack of proper followup and reluctance to deal with tough selection decisions and post-merger consolidation of assets.

The combination of two poorly managed and financially weak organizations doesn't translate into a strong one after merger. It appears the key to successful merger is attention to post-merger consolidation steps leading to more efficient and effective operations.

The nature of cooperatives also has come into question. Some view cooperatives as only economic instruments existing and operating to increase the profitability of their owners. The authors of American textbooks on cooperation and teachings in courses throughout the country have long held cooperatives must succeed first as economic entities to benefit their members. Social and other benefits are secondary.

The membership base of cooperatives is critical to answering the "benefit for whom" question. Cooperatives must recognize and strategically plan for needs of end-users of their products, whether it be farmers and ranchers of input cooperatives or off-farm consumers of food and fiber production.

Those who argue marketing cooperatives have customers and not members are applying words more appropriate for input organizations (farm supplies, electricity, credit, etc.) where the farmer is the owner-user. But, marketing cooperatives have members and must perform to their needs and expectations while simultaneously satisfying customers wants and needs at the other end of the marketing channel.

Farmers use cooperatives for vertically integrating the market channel. University of Missouri Professors Harold Breimeyer (retired) and C. Brice Ratchford say cooperatives have a strategic role in maintaining an owner-operator structure in production agriculture in America.

Basic Cooperative Questions

At issue are basic questions. What is a cooperative? How should it be organized, financed, and operated? Cooperatives in practice and theory are an extension of the farm business beyond the fence line, allowing farm operators to participate in one or more stages of the marketing channels.

The Nourse school of cooperative thought identifies with this view by emphasizing efficiency. While it is valid for farm supply and some first-handler marketing cooperatives, it may not adequately apply to today's large, vertically integrated marketing and processing cooperatives. Traditional theory contends important production and harvesting decisions remain with the farmer-members. The cooperative's role is to most efficiently process and distribute the results of the members' independent decisions.

An alternate concept has the cooperative identifying buyer or consumer demands and changing preferences. It then causes changes in production decisions of farmer-members. This implies interjection by the cooperative on such traditional farm decisions as varieties of plant and livestock species, planting and harvest dates, maturity standards, and often cultural practices affecting quality or market acceptance, including meeting Government regulations.

Such cooperatives are more than an extension of the farm business. In reality, a cooperative is described as a primary coordinator of production with marketing and a partner in the members' decision process, if the cooperative and its members are to produce for the customer. Future cooperatives will play more of a coordination role to assure members' survival and contribution to market needs.

Streamlining the System

An intense struggle is underway to determine how cooperatives position themselves. Its outcome will have a profound impact on the future structure and design of the cooperative system. The focal point is at the regional and local levels. The struggle is how the tiers accommodate each other in the adjustment process.

A driving force in regionals' adjustments comes from local leaders. For example, a group of southern Minnesota cooperative managers called several meetings to encourage regionals to rationalize their distribution system and end duplicated efforts and overcompetition. Keep in mind, these are member-owners of the respective regionals. The emphasis is how to streamline the system and make it more efficient for the benefit of members.

If the system becomes centralized (direct membership) at the regional level, the local tier is eliminated. Direct membership occurs either at the super-local or regional level in this case.

Specialization Approach

Another issue concerns the structure of regional cooperatives. During the 1970s, cooperatives were developed as one-stop centers, combining farm supply and marketing services in the same regional organization. But their performance record has not measured up to other cooperatives.

An alternative is to unbundle assets from cooperatives to reconfigure organizations along lines of common membership interests. But this effort to reconfigure must not impede cooperatives from closing ranks and bringing some rationality to structure. A continuing competitive problem for cooperatives, however, is the ability of investor-owned firms organized as conglomerates or "agglomerates" to cross-subsidize operations while driving out competition. By definition, cooperatives are limited to business activities related to their member-users.

How should farm leaders reposition their cooperatives for maximum efficiency and marketing power? Difficult times often lead to institutional innovations, helping streamline the system and ensure improved coordination. Cooperatives need to close ranks and offer farmer-members a soundly managed least-cost system, returning benefits to them proportional to their use. ■

Management, Marketing, Mergers: Focus of ACS Aid to Farmers, Co-ops

Drastic changes have been imposed on farming operations and institutions such as cooperatives serving farmers because of the agricultural depression of the 1980s. For cooperatives, these changes have taken the form of mergers, repositioning, formation of new ones, liquidation of assets (particularily in the grain industry), and bankruptcies. As the support and service agency for cooperatives in the U.S. Department of Agriculture, Agricultural Cooperative Service (ACS) focused its efforts on addressing the crucial problems facing cooperatives and their members.

In 1985, ACS provided technical assistance to 83 cooperatives and producer groups. These projects included studies of potential mergers, cost analyses, feasibility studies of new facilities and new cooperatives, and development of financial and marketing plans.

ACS also conducted or managed more than 90 separate research projects, examining such issues as financial performance, utilization of export management companies, director liability, and operation of a reserve balancing pool by dairy cooperatives. These studies were conducted by ACS economists and prominent agricultural economists at the Nation's land-grant universities. Results were disseminated through the agency's cooperative education effort.

Basic missions of the agency are mandated by the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. These missions are relevant to the needs of agriculture today. They are: carry out basic and applied research on farmer cooperatives, provide technical assistance to existing cooperatives on marketing, financial, organizational, and economic problems, provide technical support and assistance to newly emerging and developing cooperatives, collect and disseminate statistics on changes and trends in cooperatives, and promote the knowledge of cooperative principles and practices.

Randall E. Torgerson
ACS Administrator
Donald W. Street
Asst. to the Administrator

ACS is structured to reflect these legislative mandates and organized into three divisions, based on a program-area concept (fig. 1). With the exception of three field offices (London, KY, Greenville, NC, and Hilo, HI), the staff is headquartered in Washington, DC.

Economic Research Role

Economic research is the primary mission of ACS. Through internal efforts and cooperation with land-grant universities, the agency is the focal point of research on cooperatives in the United States. Like any business or institution, ACS must choose how to allocate resources and provide research results to assist cooperatives in solving problems and making sound decisions. The ACS planning process draws on numerous sources including an outside program review group, cooperative members, directors, and managers, and internal staff resources in determining issues to be investigated. Priorities are established on an annual basis for projects conducted by ACS staff. Additional priority efforts are coordinated with participating land-grant universities.

Ninety-three projects were active in 1985. Thirty-one were conducted by ACS staff and 62 sponsored as cooperative research agreements with land-grant universities. Twenty-one projects were completed during the year and 23 others initiated.

Summaries of projects completed or published in 1985 follow. Copies of these and other publications are available. (Ask for CIR-4 publications catalog.)

A Reserve Balancing Pool for Services by Dairy Cooperatives (ACS RR 51)—The rationale for compensating dairy cooperatives for costs incurred in balancing milk supplies for the fluid market is examined. Factors analyzed included the necessary volume, payment alternatives, and means of cooperative qualification and participation.

Annual Financial Profile of the Largest Farmer Cooperatives—This project represents the fifth in an annual series analyzing changes and trends in sales, assets, net margins, debt utilization, and net worth of the Nation's 100 largest farmer cooperatives. In 1984, these cooperatives recorded total revenues of $53.2 billion, a 9 percent increase. Total assets declined 2 percent to $16.6 billion. Net worth as a percentage of total assets climbed 2.2 percentage points to 33.8 percent. Net margins totaled $421 million, up 6 percent. This study was published in four parts in the September through December issues of ACS' ***Farmer Cooperatives*** magazine. Additionally, an article focusing on the financial results of 40 selected large cooperatives from the top 100 group was published in the June issue.

Using Export Companies to Expand Cooperatives' Foreign Sales (ACS RR 52)—Many agricultural cooperatives can expand foreign sales by using export management companies (EMCs). Small cooperatives may find foreign markets too costly and time consuming to penetrate without EMCs' help. Larger cooperatives may use EMCs for sales in selected foreign markets or to enhance sales of particular products. Services offered by EMCs and typical fees are discussed along with some guidelines for selecting and using EMCs.

Director Liability in Agricultural Cooperatives (ACS CIR 34)—Surveys and discusses possible sources of liability faced by cooperative directors and suggests practices and behavior to help avoid such liability. The common law sources of liability are described. Liability of directors for criminal activities is noted. Statutory laws placing liability on directors for their violation are outlined. Liabilities for improper distribution of dividends, depletion of capital, improper patronage dividends, and antitrust violations are singled out for more detailed discussion.

Marketing and Transportation of Grain by Local Cooperatives (ACS RR 46)—A total of 2,060 local grain associations handled 4.7 billion bushels during the 1982-83 marketing year. These associations handled an estimated 41 percent of the off-farm sales. About 40 percent of grain sold by cooperatives was corn, 25 percent wheat, and 27 percent soybeans and sorghum combined. Storage capacity per location was 630,000 bushels. In the past 3 years, about 10 percent of locally owned cooperative elevators lost rail service.

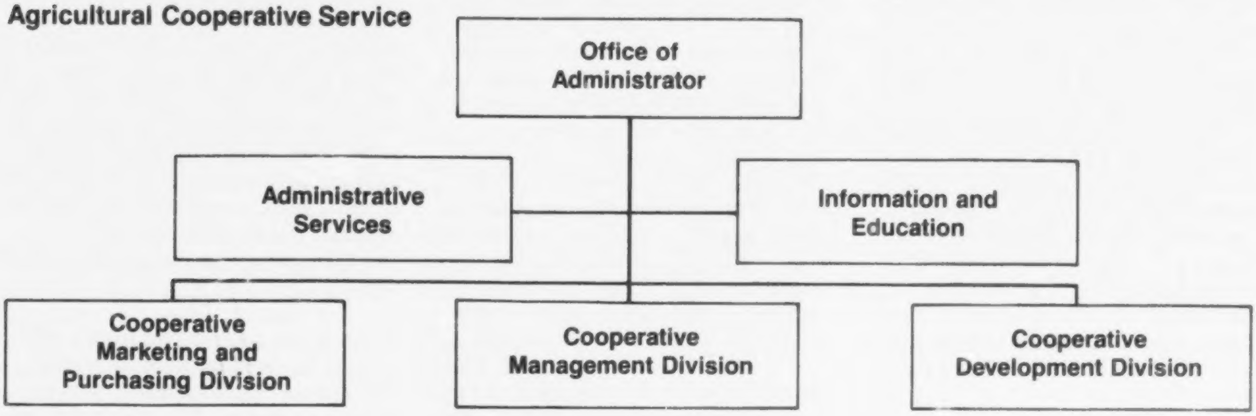
Farm Supply Cooperatives: Structure, Operations, and Growth in the Midsouth (ACS RR 50)—Supply sales of Midsouth cooperatives grew at an annual rate of 43 percent from 1951 to 1983, faster than supply cooperatives in any other region of the United States. Total cooperative sales of 300 member-locals reached $1.1 billion in 1983. Supply sales in the five-State area averaged 13 percent of farm production expenditures in 1973 and 22 percent in 1983. Regionals operate generally free of cooperative competition and serve member-locals in an individual or multi-State area. Cooperative management practices and teamwork contributed most to faster growth. Regional managers, dedicated to serving farmers first, developed and coordinated teamwork between regional and local operations. Local support and commitment encouraged cooperative employees to help each other help farmers.

Financial Performance of Dairy Cooperatives (ACS RR 49)—Combined balance sheets and operating statements were used to develop benchmark financial ratios for dairy marketing cooperatives. Data from 291 cooperatives were summarized for five types of dairy cooperatives, then by three types and three size combinations. Both type and size of cooperative made differences in most of the 16 financial ratios calculated as well as in the common size balance sheets and operating statements.

Young Member Programs for Cooperatives (ACS RR 48)—Objective of this report was to provide cooperative decisionmakers with effective strategies for developing young member progress in local cooperatives. Subject areas analyzed were: the range and scope of young member programs and activities utilized by a sample of local cooperatives, relationship of young-member programs and activities to the governance system of local cooperatives, factors that block integration of young-member programs and activities into local cooperatives, and the organizing procedures to help stimulate development of young-member programs and activities.

Financial Profile of Cooperatives Handling Grain: First-Handlers, $15 Million Sales or Larger—Operating and financial data are examined for first-handlers related to several size factors: grain storage capacity, total sales, total assets, and net savings (margins). In addition, associations handling predominantly

Agricultural Cooperative Service


Office of Administrator
Administrative Services
Information and Education
Cooperative Marketing and Purchasing Division
Cooperative Management Division
Cooperative Development Division

- Crops
- Dairy—Livestock—Poultry
- Farm Supplies
- International Trade

- Finance
- Management and Operations
- Policy
- Statistics and ADP

- Field Operations and Training
- Feasibility and Development

corn/soybeans, wheat/sorghum, and wheat/barley were summarized separately and compared. The specific information presented in this report should help cooperative management and boards make sound business decisions as they confront new problems and the need for increasing amounts of capital for improved or new facilities and/or services.

Cooperative and Proprietary Agribusiness: Comparison of Performance (Purdue University Research Bulletin 982)—A series of comparative performance studies of cooperative versus proprietary (noncooperative) firms are summarized; farm supply outlets, grain elevators, credit institutions, cheese plants, and fertilizer and chemical retailers. Measurements of performance analyzed were prices, efficiency, financial performance, growth, and services. Implications for public policy, management, education, and further research are addressed.

ACS started fiscal 1985 with 62 active research projects exploring topics such as guidelines for structuring successful joint ventures between cooperatives; benefits of using nonqualified written notices of allocation; analysis of the effect of changes in farming patterns on cooperatives; future role of cooperatives in the apple industry; factors critical to the success or failure of emerging cooperatives; involvement of cooperatives in tobacco marketing; future role of live animal marketing cooperatives; analysis of farm supply outlet consideration; and the potential for cooperative grain exports in developing market economies. ACS continues to conduct ongoing projects including the annual financial profile of the largest 100 cooperatives.

Priority projects have been established for each program area. They will be started once existing projects are completed, or through use of agricultural economists at the land-grant universities. Priorities will be adjusted as warranted by changes in the economic and financial conditions facing cooperatives.

Technical Assistance

ACS assisted 83 cooperatives and producer groups in 1985. These 62 projects involved cooperatives throughout the United States and analyzed mergers, management planning, cost studies for processing plants, cash flow projections for potential new cooperatives, and proposed capital investments.

ACS participated in 20 projects involving established cooperatives in 1985. Although results of individual reports are confidential, two are good examples of the assistance ACS provides. A comparative cost study was conducted for eight dairy cooperatives operating 32 manufacturing plants. The analysis identified areas where costs could be reduced and operations improved. Identified savings can directly increase returns to cooperative members. This project is being updated for 60 plants operated by 12 dairy cooperatives. A second project is an analysis of the operating efficiency of 14 cooperative oil mills including costs, revenues, prices, and per-unit utilizations. Results are used by participating cooperatives to improve their operations. Forty-two technical assistance projects involved emerging or developing cooperatives. They had a total estimated membership of more than 3,800. Many efforts analyzed the feasibility of establishing new cooperatives to serve agricultural producers. Critical factors concerned in these analyses included adequate capital and the ability to generate a positive cash flow. Other projects assisted newly established cooperatives in evaluating new or additional facilities, and developing marketing and financial plans. A key ingredient is training on cooperative principles for managers, directors, and members.

The staff of ACS is trained in the latest analytical techniques and provides sophisticated analysis to cooperatives. Personal computers are used extensively to develop cash flow projections under a variety of scenarios and assumptions. Technical assistance recipients are surveyed routinely to measure the quality of ACS service. Based on a 5-point scale (1-poor, 5-superior), the quality of ACS technical services rated an average 4.2 in 1985.

Interested cooperatives are encouraged to submit requests for technical assistance. Requests are evaluated on the nature of the problem and the experience, expertise, and workload of the agency staff. ACS started the year with 30 active technical assistance projects. They involved 10 established cooperatives and 20 developing and newly established ones.

Cooperative Statistics

National statistics of all farmer cooperatives are compiled annually by ACS' Cooperative Management Division's Statistics and ADP program staff. This is the only source of national statistics on farmer cooperatives and represents a barometer of cooperative activity throughout the U.S. Computerized summary and edit procedures have been developed to improve the timeliness of this data series. Additionally, a combination of census and sampling procedures have been employed to reduce the respondent burden. A full census of all cooperatives is conducted every 4 years. Stratified random samples are used in the alternate years, greatly reducing the data collection and handling requirements. The 1984 survey was a sample enumeration.

Recommendations adopted from a 1985 internal review of the statistics process will result in reducing the time required to release published data by an estimated 2 months. Other recommendations will greatly increase the usefulness of this data set through personal computer-based analysis.

Farmer Cooperative Statistics (ACS CIR 1, Section 27) was updated with findings from an annual survey of cooperatives. It includes information and trends in total business volume, number of organizations, memberships, balance sheet, net margin, and other selected items.

Cooperative education is coordinated by ACS Information and Education (I&E) staffers. However, numerous staff members participate in meetings, seminars, and conferences teaching cooperative principles and practices.

A major function of I&E staff is to disseminate information generated by the agency's research program. ACS is the central storehouse for cooperative information and reference material in this country. ACS is also the primary source of educational material on cooperatives for many schools, cooperative associations and organizations, and others needing basic materials on cooperative organization, principles, operations, finance, legal and tax status, and rights and responsibilities. The agency distributed more than 115,000 publications in 1985.

A major instrument in the dissemination of information is the agency's monthly magazine, ***Farmer Cooperatives***. Now in its 52nd year, it is the only nationally circulated magazine for agricultural cooperative leaders and educators. Primarily a management publication, its articles focus on current topics of interest. They are written both by industry leaders and the agency's staff. Regular features of the magazine, such as the Management Tip, Legal Corner, and annual Financial Profile of the Top 100 (largest) Cooperatives, provide timely information to the cooperative managers and directors.

During 1986, the agency will review more than 60 educational periodicals to determine relevance and need for updating. Work will continue on completing a series of publications on various functional and commodity-specific segments of farmer cooperatives in the U.S. Four new sections are expected to be published.

ACS is cognizant of its unique role as a public agency in serving the cooperative sector of agriculture. We believe our efforts are best targeted to serve the needs of cooperative members. Research and technical assistance projects have the primary goal of improving both cooperative operations and the economic position of farmers and ranchers.

One cannot ignore the difficult times ahead for cooperatives. ACS stands ready to provide help, through direct technical assistance, research results, or training to meet the needs of cooperatives. ■

VOCA Launches Farmer-to-Farmer Assistance Effort

As many as 65 American farmers may be selected to advise their counterparts in the Caribbean and Latin America on how to improve management of their farming operations or assist on technical subjects. They will be part of the pilot Farmer to Farmer program, the legislative initiative of Nebraska Rep. Douglas Bereuter, being conducted by Volunteers in Overseas Cooperative Assistance (VOCA), based in Washington, DC.

VOCA is headed by a familiar face from the Washington cooperative scene in the form of Kenneth Naden, former president of the National Council of Farmer Cooperatives. The first wave of 12 farmers was expected to leave the U.S. about mid-January for their 60- to 90-day assignments in about 15 countries. "Their efforts are strictly voluntary," Naden emphasized, "and compensation will be limited only to expenses incurred from the time they leave until returning to the U.S. They will review situations in the host countries and offer their advice based on existing facilities and capital of the individual farmers."

"Most of the participants will be retired farmers who have the time and experience to devote to the effort, but some also might be those with younger family members who can maintain the home operation for a time or can get away from the farm during the off season. Age is no barrier. We can use volunteers from 25 to 80 as long as they are in good health and can spare the time. The intent is to improve the efficiency and productivity of farmers in the host countries," Naden said.

The law establishing the program was enacted last year, but funding was held up this year as part of the 1985 farm bill. Instead, the Agency for International Development (AID) decided to move forward on a pilot program basis by providing $400,000 in funding under the existing Food for Peace (PL 480) program.

Naden said the program is patterned after VOCA's successful experiences since 1971 in sending American business executives to cooperatives in developing countries. The Farmer-to-Farmer program would expand these activities to all types of farm operations including animal care and health, field crop cultivation, fruit and vegetable growing, poultry and fish operations, agricultural education, farm credit, farm marketing, and farm inputs.

VOCA will be AID's managing contractor for the program. It will use the services and experience of other private development organizations with current projects in the agricultural field. For further information, contact: President Kenneth Naden, Volunteers in Overseas Cooperative Assistance, 1800 Massachusetts Ave, NW, Suite 301, Washington, D.C. 20036.

A Cooperative's Response to Crisis: Michigan's FB Services and PBB

Editor's Note: This article is based on the author's research project prepared while attending Michigan State University. James Shaffer was his major professor. The study was financed in part under a cooperative agreement with Agricultural Cooperative Service. Agra Land, the successor organization to Michigan Farm Bureau Services, subsequently merged with the Countrymark, Inc., cooperative system in Ohio.

When Michigan Farm Bureau Services (FBS), State farm supply and grain marketing cooperative based at Lansing, learned it was involved in a major dairy feed contamination incident in 1974, it knew it was in for trouble. No one suspected, however, the polybrominated biphenyl (PBB) accidentally shipped to the cooperative by its chemical supplier would create 10 years' work for cooperative officials trying to deal with the problems it caused.

None of the cooperative's administrators had ever been faced with this type of problem. The process of ending their troubles was slow. Many lessons were learned along the way. Hindsight suggests a solution might have been found sooner and cheaper. After many years of struggle, FBS officials hit upon some unique strategies useful to other cooperatives.

PBB is a fire retardent. Nothing was known about its effects on human health over time. At first, the company moved quickly to pay off damaged farmers in hopes of minimizing both ill will from clientele and the adverse publicity they knew the problem was capable of generating. These quick high payoffs didn't have the desired effect. People who saw neighbors getting high settlements began to file their own claims. The problem worsened after health officials made their standards more stringent, causing more farms to be quarantined. Claims began to snowball. Soon FBS and its chemical supplier reached the limits of their insurance coverage.

Scott Loveridge

PBB was a problem that wouldn't go away. It had stuck to the blades of the feed mixing equipment, contributing to the contamination problem long after the initial mistake. It also stayed in the tissues of the cows consuming the contaminated feed. To complicate matters, PBB liability could also be inherited by any other company merging with or buying FBS. Michigan courts historically upheld the "successor business" concept. It said corporations were liable for the actions of any company they acquired.

Ohio Interest Continued

FBS encountered the "successor business" problem when, after many years of attempting to resolve the PBB issue on its own, the cooperative realized its mounting liabilities and diminishing clientele required a strong merger partner. Several regional cooperatives in nearby States were probed for their interest in combining with FBS. Only one, The Ohio Farmers Grain and Supply Association (subsequently to merge with Landmark to form Countrymark), was willing to negotiate with the troubled company.

Ohio Farmers was served by the Louisville Bank for Cooperatives while the major credit supplier for FBS was the St. Paul Bank for Cooperatives. This administrative fact hampered efforts to combine. St. Paul officials were willing enough to let go of the troubled borrower, but Louisville officials were concerned a combination of FBS and Ohio Farmers could result in a weak company and damage the bank's portfolio. A combination probably would have been quite simple if both companies had been borrowing from the same district cooperative bank. Louisville, afraid of the "successor business" specter, set strict conditions for the combination, forcing Ohio Farmers to back down considerably from its initial bargaining position.

Before that, FBS, certain of an imminent combination with Ohio Farmers, initiated a reorganization under Chapter 11 of the U.S. Bankruptcy Code. Under Chapter 11, a reorganization plan must be presented to the court and approved by various groups of creditors. If it seems no plan of reorganization is forthcoming, the Chapter 11 action may revert to a Chapter 7 bankruptcy (liquidation). Once a Chapter 11 action is initiated, management is pressed to formulate a reorganization plan.

However, no reorganization plan was to come from negotiations with Ohio Farmers. Louisville BC refused to consider a merger. An acquisition would have been acceptable to Louisville (despite fear of successor business liability), but only under strict conditions of debt-to-equity ratio and cash availability. Ohio Farmers found it difficult to meet these conditions and still assemble an attractive bid for FBS' assets. Ohio Farmers played its cards close to its chest. It didn't divulge Louisville's reluctance to FBS and instead sought ways to justify a lower bid.

Relations Deteriorated

FBS interpreted Ohio Farmers moves as either stalling or indifference. Earlier, Ohio Farmers management had come to Michigan for a thorough inspection of FBS records. FBS began to suspect Ohio Farmers' interest in a combination had been a ruse to obtain this inspection. Relations between the two cooperatives' top administrators began to deteriorate.

When Ohio Farmers finally offered a bid for FBS assets, the Michigan company's administrators were shocked by the low price. They decided Ohio Farmers was not serious and was wasting precious time. (FBS assets had eroded considerably during the course of negotiations.) FBS made a counteroffer for the sale of its assets and stipulated a response within a span of time Ohio Farmers claimed was unreasonably short. The two companies broke off negotiations. (They reopened talks 2 years later.)

Now, FBS was in the midst of Chapter 11

proceedings without a suitor. It was strapped for a reorganization plan. Management formulated what was appropriately called "The Bootstrap Plan." It entailed raising capital to bolster the company through investments by local cooperatives and other organizations and by increasing the volume of business through "member purchase agreements." The plan entailed raising capital to bolster the company through investments by local cooperatives and other organizations and by increasing the volume of business through these agreements. The agreements were to be contracts with the locals. The member cooperatives would agree to devote a particular percentage of their volume through FBS. Any local not agreeing to these conditions would be excluded by FBS.

The membership was polled for its response to the agreements. A few locals agreed to sign such contracts, but FBS soon came to the conclusion more business could be generated without "member purchase agreements." Because too many local cooperatives would be shut out of the organization, FBS abandoned the plan.

One concept arising from "The Bootstrap Plan" was instrumental in the next reorganization plan. Some cooperatives were willing to make additional investments in their regional. Another idea was to restructure the pension program, and extract surplus cash resulting from overfunding. FBS had found a new source for a much needed influx of capital. Normal sources of credit had been exhausted.

LOL's Feed Formulations

FBS knew it needed to find a way to increase farmers' confidence in its products. They believed this would increase sales volume and willingness by locals to make new investments. They found what they were looking for in the form of Land O'Lakes, Inc. (LOL), Minneapolis-based dairy marketing and farm supply cooperative.

LOL offered to lease its feed formulations and logo to the reorganized FBS. LOL also was willing to invest a small amount of capital in the reorganized Michigan cooperative. In exchange, FBS agreed to pay LOL a fixed sum for every ton of feed FBS marketed under the LOL label. FBS also agreed to pay a flat annual sum for rights to LOL's logo and additional consulting fees for services requested. FBS further agreed to give LOL a seat on the FBS board of directors.

Michigan officials felt LOL had already invested considerable resources in developing brand name recognition and in researching its formulation. Therefore, Michigan could save a lot by not having to duplicate LOL's efforts. LOL had a proven product. From its viewpoint, leasing its formulation and logo to a company in a different market area could recoup some of LOL's development costs quickly. By cooperating both cooperatives could benefit.

With LOL's offer in hand, FBS approached its members and requested more investments. Up to this point, board control of FBS had been in the hands of Michigan Farm Bureau, which had founded the company. Locals had little power in their regional. To induce more local investment, the power structure within the company had to be shifted in their favor. Locals investing in the regional were offered one vote per $1 invested. The number of votes per share held by Michigan Farm Bureau would be reduced from one per share to one per 200 shares, giving it one place on an 11-member board.

About one-quarter of the locals serviced by Farm Bureau Services agreed to invest. They would have control of the board of the new company. Now, FBS had new working capital and a new feed to sell, but was not yet rid of the original problem. The company needed to find a way to protect investments from PBB claims. Otherwise, it would have no chance of obtaining new capital essential for operation.

Personal Injury Claims

The PBB issue had evolved since the original claims. Most of the property damage caused by destruction of herds or quarantining of milk produced had been settled. What remained were the personal injury claims. They arose from alleged loss of personal health by farmers who had consumed their own contaminated products. These claims are particularly dangerous to a corporation because settlements are not limited to the value of the item damaged as they are with property damage claims. It is difficult to put a dollar value on health and settlements tend to be high.

FBS had fought one personal injury suit in a long, expensive court battle. The court ruled in favor of the Michigan cooperative. It tended to discourge other claimants. Still, the possibility of more personal injury suits needed attention. FBS' bankruptcy lawyers devised an ingenious method for minimizing risk from personal injury suits. It established a deadline by which anyone who had made a PBB-related claim against Farm Bureau Services was required to submit a claim for damages not yet declared. After this date, any further claims from these people would be valued at $1. PBB claimants were made a class of creditors in the reorganization, with powers to vote to accept or reject the plan. When PBB claimants voted to accept the plan, they effectively waived their rights to file claims in the future.

PBB claimants voted to approve the plan because the reorganization established a fund to be divided among them. As subordinate claimants, they would have received nothing in a liquidation. This maneuver, however, didn't protect the company from claims made by persons who had never filed prior to the reorganization.

The claimants were not the only class of creditors to approve the plan. In fact, every class voted overwhelmingly in favor of the reorganization. This is because the new capital assured everyone the company was worth more to them in a reorganization than in a liquidation. Thus, Agra Land was formed.

Agra Land was faced with tremendous challenges to become profitable. It had to cope with a legacy of 10 years of management time devoted primarily to the PBB problem, rather than principally business considerations. Company personnel were demoralized. Little investment in new equipment had occurred since the discovery of the company's PBB problem. Legal costs of reorganization drained the company of most of the new capital invested by the locals.

Because only a few of the locals controlled the board of directors, it was difficult for management to orient the company to attract the business of those locals that hadn't made new capital investments during the reorganization. The company failed to get large orders from most of the locals not represented on the board. Agra Land was operating with a very short list of regular clients. It could not survive without a broader base of participating locals.

LOL feed so well accepted in other regions was unknown in Michigan. Agra Land had used significantly more resources than originally anticipated in pushing the LOL brand. Initial sales performance of the brand, while better than that of its predecessor, was disappointing. Administrative costs of the new company proved burdensome. With thousands of new investors, voting procedures had become quite costly. Each major company decision required printing and mailing information to all of the new investors, and analyzing their responses.

Subsequent events brought a new perspective to consolidation. On August 16, Agra Land and the Countrymark officials announced a tentative plan to make Agra Land a subsidiary of Midstates Terminals, Inc. Midstates is 80 percent owned by Countrymark. The cooperative was formed through a merger of Ohio Farmers and Landmark, both based in Ohio. The plan, approved by the respective companies' boards and lending institutions calls for Countrymark to assume Agra Land's debt and debenture payments in exchange for control of Agra Land assets. Agra Land will become a corporate shell.

LOL will cash in its stocks, but the rest of the stocks issued by the company will remain with the shareholders. A new series of stock will be created to provide some protection to new investments made at the time of the 1983 reorganization by locals in the event a liquidation of the company becomes necessary. Any local previously a grain member of Agra Land automatically becomes a member of Midstates. Locals will be able to obtain farm supplies directly from Countrymark.

Agra Land officials cited their combined $4.2 million in operating losses ($3.9 million in losses after financial restructuring) in the 2 years following reorganization as the impetus for their moves to link up with Countrymark. They were particularly disappointed in their grain and bean marketing division, although their other farm supply division (including LOL feed) had experienced losses as well. Contracting arrangements established with LOL during 1983 reorganization had been successful, but not enough to save the company. The LOL agreements have since been terminated.

What can be learned from the Farm Bureau Services/Agra Land experience? Many intelligent, highly trained individuals poured a lot of time and money resources into finding some unique solutions to problems. Some of these solutions can be adopted by other cooperatives. Hindsight also shows some costs and problems might be avoided by cooperatives experiencing similar difficulties in the future if some of the pitfalls experienced by FBS can be circumvented.

When faced with a contamination problem, a corporation should investigate the potential magnitude of the payments when making the initial settlements. A hard-nosed attitude at the outset may save much grief later. When dealing with potential merger/acquisition partners, a frank attitude about constraints and concerns will smooth negotiations. It is important to be as open as possible in communications. Member involvement should be stressed in any reorganization.

While capital investments by one-fourth of FBS might have been sufficient in terms of cash, it was an indication the majority of the locals lacked confidence that the reorganized cooperative could make a valuable contribution to the business. Power was skewed toward those few locals making investments, potentially alienating the rest of the co-ops further.

Once people recognize reorganization is needed, it should be viewed as an opportunity to streamline the company by spinning off unprofitable activities. Agra Land was engaged in essentially the same lines of business before and after its reorganization. Great care should be taken to plan for payment of legal work in formulating a plan of business operations after the reorganization. This expense can be considerable and cripple company strategies for recovery if not properly taken into account.

Great care should be taken in estimating the value and profitability of future operations before a company goes ahead with a plan of reorganization. All cooperatives, great and small, profitable or unprofitable, should seek ways to reduce their costs by sharing research and development expenses. The agreement between Agra Land and LOL was a landmark in cooperative business. This type of arrangement has great potential for assisting cooperatives in bringing a higher quality, lower cost product to the farmer. ■

LEGAL CORNER

Cooperative Contracts Violate Section 3 of Clayton Act

In 1973, the United States sued a major dairy marketing association. It sought a permanent injunction against numerous alleged monopolistic practices of the association. In the following years, the cooperative defended itself successfully against all charges of violating the Sherman Antitrust Act.

However, the United States Supreme Court has refused to review a decision of lower Federal courts holding the association violated Section 3 of the Clayton Antitrust Act (*Dairymen, Inc.* v. *United States*, 54 U.S.L.W. 3196, Oct. 8, 1985). This is believed to be the first time a cooperative has been held in violation of this statute.

Facts in the Case—The cooperative was formed in 1968 through the merger of eight smaller associations. In the next few years, 10 other cooperatives joined the new organization. Volume, sales, and market share in the geographic areas served grew rapidly.

Much of the impetus for the mergers was to give producers bargaining power equal to large processors who purchased their milk. The cooperative sought to increase returns to producers by negotiating contracts requiring customers to purchase all the Grade A milk they needed from the association (full supply contracts).

To induce handlers to accept these contracts, the association notified them milk supplies would be on a day-to-day basis unless they signed. Milk was withheld from some dairies. Two of them brought private antitrust actions against the cooperative. After these suits were filed, the association agreed to offer a contract requiring only a minimum annual volume purchase (committed supply contract). The cooperative secured 69 full supply contracts and 22 committed supply contracts. In 1971 when these events occurred, the association had its highest share of the markets involved, 60 percent of production. Its market share slipped to 52 percent 4 years later.

The association also required milk handlers in some areas, who wanted to transport its milk, to agree not to move anyone else's (exclusive hauling contracts). This was justified as necessary to prevent members' Grade A milk from being contaminated by impurities in nonmembers' milk.

The Issue Involved—Section 3 of the Clayton Act makes it unlawful to enter into a contract for sale of goods on the basis that the purchaser will not buy from competitors if the effect "may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

The issue before the courts was whether a dairy cooperative's 1-year full and committed supply contracts, obtained at the peak of its market share, accompanied by threats to cut off milk supplies to processors, and in combination with exclusive hauling contracts, revealed specific intent to foreclose a substantial share of the market from competitors in violation of Section 3 of the Clayton Act, and outside of the protection provided cooperatives under the Capper-Volstead Act.

Court's Decision—The U.S. Court of Appeals for the Sixth Circuit said it was a violation. The Sixth Circuit takes a more restrictive viewpoint on the protection accorded farmer cooperatives under the Capper-Volstead Act than some other Federal Courts of Appeal. Other courts have said a cooperative's marketing practices don't violate the prohibitions on restraints of trade and monopolization in sections 1 and 2 of the Sherman Act, unless they are predatory practices; i.e., anticompetitive conduct without any business justification.

The Sixth Circuit interprets the law to bar conduct that may have a legitimate business purpose if it nevertheless is undertaken with a specific intent to monopolize. The association in this case avoided liability under the Sherman Act because the Government failed to meet its burden of proof on another element of the offense, to show a dangerous probability of success by the cooperative in establishing a monopoly.

The court acknowledged there were legitimate business reasons for entering into the full supply, committed supply, and exclusive hauling contracts. Despite this finding, the court held the contracts of this association did "substantially lessen competition." It looked at both quantitative and qualitative evidence. It found the association's 60-percent market share large enough to support actions to substantially lessen competition. It also considered important the contracts were implemented at the peak of the cooperative's market power, and while the cooperative was selling to large processors it was competing with smaller cooperatives and independent dairy farmers.

This case clearly holds the Capper-Volstead Act doesn't totally immunize a cooperative from antitrust liability. Performance of a properly organized cooperative can be held to violate Section 3 of the Clayton Act if a court can be convinced the conduct was motivated by an intent to substantially lessen competition.

Donald A. Frederick
Attorney

PEOPLE NEWS

Dennis Sargent...

vice president of administration and farm centers for Countrymark, Inc., at Columbus, OH, was one of 12 alumni recently honored by Ohio State University. Sargent, who earned degrees at the university in 1974 and 1978, received the William Oxley Thompson award for distinctive career achievements by alumni 35 years or younger. Sargent also is a director of MSI Insurance Companies, a trustee of American Institute of Cooperation, director and past president of Ohio Council of Farmer Cooperatives, and secretary of the Ohio 4-H Federation.

At Rice Growers Association...

Michael Cook, former president of Farmland (Industries) World Trade at Kansas City, Mo, and Jack Kenward, former editor of *Farmland News* and later Cook's manager for administration in Farmland World Trade, have taken positions with the California marketing cooperative. Cook is chief executive officer and Kenward director of communications for the 1,600-member cooperative. It markets almost half of California's rice.

Dr. Walter Jacoby...

vice president, programs for American Institute of Cooperation in Washington, DC, retired Dec. 31 after a quarter century of service. Since the announcement of his retirement last summer, Jacoby has received a number of awards from organizations such as National Association of Extension 4-H Agents and National Association of County Agricultural Agents. At last spring's Eastern Member Relations Conference, Dr. and Mrs. Jacoby were designated the association's honored guests for the 1986 conference at Kissimmee, FL. Jacoby was active in organizing the annual conferences for many years.

At Columbia Farm Credit Banks...

Maxey D. Love, Jr., chief executive officer of the district banks, has chosen three executive officers for joint management positions with the district's three banks. Jack D. Condra, former president of the Federal Intermediate Credit Bank of Jackson (MS), will be president and chief operating officer. Charles H. Cook, former senior vice president, secretary, and general counsel of the Columbia Bank for Cooperatives, will be executive vice president and chief administrative officer. Walter R. (Bud) Batchelor, former senior vice president of Columbia Federal Intermediate Credit Bank and Federal Land Banks, becomes senior vice president and internal review officer.

Donald L. Brick...

vice president of the manufacturing division of Swiss Valley Farms, Co., Davenport, IA, has been selected to serve on the board of directors of the United States Cheese Makers Association. The association is a new group organized for the purpose of representing, educating, and informing its members regarding national and world cheese market conditions. The organization's headquarters are in Madison, WI. Subsequently, Brick was named to the board of directors of the Whey Products Institute based in Chicago. The institute's chief function is for research and development of whey products.

At United Cooperatives of Ontario...

thirty young adults ages 18 to 21 attended the 18th annual Young Leaders camps organized by United Co-operatives and Cooperative College of Canada. Participants were sponsored by either a cooperative or a credit union for the camps. On the agenda were leadership and communication skills, interpersonal skills, and cooperative/credit union history and business philosophy.

Richard W. Bonney Jr., ...

who retired as president of the Columbia Bank for Cooperatives in January, was honored by the Florida Council of Farmer Cooperatives at its 48th annual meeting. Aubrey Fowler, past president of the Production Credit Association of Live Oak, FL, and awards chairman of the Florida Council, presented the Supercooperator Award to Bonney. Aubrey applauded Bonney for his lifetime record of superior service to and for the Florida council and agricultural cooperatives in Florida.

Anthony W.D. Luddington...

vice president for international operations for Welch Foods, Inc., Westfield, NY, retired Dec. 31 after 11 years with the company. He retired to his native England in January.

Patricia Williams...

communications director for the advertising and promotion agency of the Middle Atlantic Milk Marketing Area, was recently honored by Inter-State Milk Producers' Cooperative as its 1985 agricultural comunicator. The presentation was made at the cooperative's recent annual meeting. Williams is in contact with nearly 150 newspaper food editors and home economists, providing them with articles and recipes on dairy foods. As editor of the quarterly publication, *Farm to Market*, she provides information to the Federal Order 4 dairy farmers.

COOPERATIVE ACTION

Columbia Bank Consolidates 29 PCAs

Columbia Farm Credit District is consolidating 29 local Production Credit Associations (PCAs) into the single South Atlantic PCA to be headquartered at Columbia, SC. The consolidation, said district banks' President Maxey Love, will probably be completed by April. The district's Federal Intermediate Credit Bank had earlier provided financial assistance to five PCAs and without consolidation, a number of others would have required aid within a year.

AI Cooperatives Become Federal Genetics

Three AI cooperatives forming a common marketing venture have taken the name of Federated Genetics for their new organization. Members are Atlantic Breeders of Lancaster, PA; Eastern AI of Ithaca, NY; and Louisiana Animal Breeders of Baton Rouge. Federated will headquarter at Atlantic's marketing/distribution center in Lancaster. Federated will present a unified selection of bulls identified by stud code number 8. A federation council consisting of the presidents, vice presidents, and general managers of the member cooperatives will guide formation of the new organization. Detailed plans and administration will be handled by an executive committee composed of the three general managers. Council chairman is Jim Mellinger of Eastern. Peter Dupuis, former Eastern sales manager, is Federated's new director of marketing. Michael Sleeper, Atlantic's marketing director, becomes Federated's international sales manager. The new cooperative represents combined sales volume of 2.5 million breeding units. Semen distributors include 21st Century Genetics, Shawano, WI. International marketing will continue through World-Wide Sires.

Agway Sales Near Record; Margins Up

Near record sales and improved margins for fiscal 1985 ending June 30 were reported by executives of Agway Inc. to farmer-members during the 21st annual meeting at Syracuse, NY. President William Hiller reported consolidated sales of nearly $4.1 billion, down slightly from the 1984 record. The sales volume includes Agway's three subsidiaries, Texas City Refining, Inc., Curtice-Burns, Inc., and H. P. Hood, Inc., in addition to the traditional farm supply business. Consolidated after-tax margins improved to $14.1 million, compared with $11.8 million in 1984. Reserve to asset ratio improved 3 percent.

Feed tonnage was about the same as last year, but dollar volume dropped 20 percent largely because of sharply lower grain prices. Volume in fertilizer and lime, seed, and chemicals improved, but dollar sales were down because of lower unit prices. Agway Petroleum Corporation, a wholly owned subsidiary, had one of its best years despite refining industry problems. Texas City Refining, owned jointly by Agway and Southern States Cooperative, had a difficult year because of the relationship between prices of crude oil and refined-product and the impact of foreign refined products. Curtice-Burns continued its profitable growth trend. H. P. Hood improved after the renovated milk plant at Charleston, NY, returned to full operation. Telmark, Agway's leasing company, expanded into new territories after buying a property and casualty insurance company in Florida. During the director election, Vyron Chapman of Cassville, NY, was elected to his first 3-year term on the 18-member Agway board.

Dairymen, Inc., Returns $14.6 Million in Equity

Equity checks and reinvestment confirmation notices totaling $14.6 million have been mailed to members of Dairymen, Inc., Louisville, KY. The payment represents retirement of $11.5 million of per-unit capital retains and patronage dividends allocated to members' accounts for the fiscal year ending Aug. 31, 1980, and the retirements of nearly $3.1 million of member equity reinvestments from 1982 eligible for redemption.

Eastern AI Sees Transition, Stability

Transition and stability were recurring themes at Eastern AI Cooperative's annual meeting at Syracuse, NY. President Carl Barbic said changes in the cooperative in the past year "will keep Eastern a leader in the industry and provide the very best genetics for use in our herds." He stressed involvement of a new group, the Breeder Advisory Committee, and a new trial program to evaluate type through the National Holstein Freisian Association. General Manager Jim Mellinger spoke of stability in the cooperative's business volume of $18.4 million for fiscal 1985, up $355,000 from 1984. Margins were $451,000. Dave Porter, Adams Center, NY, replaced Erton Siper on the board. Siper had been president for 8 years and a director for 28 years.

Ranchers Cotton Returns Decline

Due to intense competition from huge oilseed crops in the United States and abroad, dollar returns to members of Ranchers Cotton Oil for fiscal 1985 declined 24 percent from 1984, members were told by Chairman Guido Lombardi at the 35th annual meeting of the Fresno, CA, cooperative. Volume of cottonseed handled exceeded 500,000 tons, half of which was crushed and the balance sold as whole seed in domestic and export markets. Member returns from seed and product sales averaged $140.60 per ton, $13.10 per ton more than the average grower payment for 1984 crop cottonseed in the San Joaquin valley. The association serves 32 cooperatives and three grower-owned ginning organizations in the valley.

Ocean Spray Shuffles Marketing Staff

Ocean Spray Cranberries, Inc., has announced formation of a new marketing management structure. John S. Llewellyn, Jr., senior vice-president of the cooperative at Plymouth, MA, said, "Ocean Spray has experienced a decade of record growth from 1975 to 1985. To help ensure that continuation, we are centralizing the direction of our business operations group while making greater use of our internal management talent."

In other news from the cooperative, six flavors of shelf-stable liquid concentrate with its aseptically packaged line were introduced last fall to retail markets in 25 percent of the United States. Further expansion was planned for another 25 percent in January and still another 25 percent in spring The cooperative is test marketing a 64-ounce plastic bottle with the bell-shaped top. It offers ease in handling and eliminates the hazard of injury from glass breakage. The unique top is a proprietary Ocean Spray design. It provides a functional grip feature that improves handling, and an appearance similar to Ocean Spray glass bottles. This development represents a breakthrough in packaging technology.

Ocean Spray is a marketing cooperative of cranberry and grapefruit growers. The cooperative recently surpassed the $500 million mark in sales for the first time in its 55-year history, making fiscal 1985 the 10th consecutive year of record sales.

AGP Reports $8.1 Million Pre-Tax Margins

James W. Lindsay, chief executive officer of Ag Processing, Inc. (AGP), Omaha, NE, credited patience and loyalty of members for margins being passed on to members. Speaking at the cooperative's second annual meeting, he said most of the savings could be attributed to managing the basics: cost control, money management, balancing production with demand, promoting employee morale, merchandising, strategic planning, member commitment to AGP, and its commitment to members. He stressed the importance of AGP and other cooperative soybean processors to maintain their posture in the marketplace on behalf of soybean producers.

The soybean salad oil refinery at St. Joseph, MO, announced at last year's annual meeting, began operation in August. Since the cooperative's reconfiguration, AGP has been able to negotiate favorable rail rates for shipping soybeans to its plants and finished processed products to customers. Ron Ostby, chief financial officer, reported pre-tax margins of $8.1 million based on sales of $643.4 million for fiscal 1985 ending Aug. 31, compared with $2 million in pre-tax margins and sales of $869.1 million in 1984. Major financial accomplishments were prepayment of $12 million longterm debt, reduction of longterm interest rate paid by almost 1 percent, and reduced debt to equity ratio from 1.16 to 0.83. Refunds allocated to members represented 5 cents per bushel on all soybeans sold to and $2.15 per ton on all soybean meal purchased from AGP. In addition, 6 percent of the preferred A stock owned by some members was redeemed in cash. During the director election, Lowell Wilson, a producer from Primghar, IA, joined the board for a 3-year term.

Inter-State Reports Net Margin of $509,406

"Shaping the Future" was the theme for Inter-State Milk Producers' Cooperative used for its 68th annual meeting at Lancaster, PA, in November. President Robert McSparran spoke of being able to deal with large swings in member production resulting from various Government programs and to return to positive income levels. Treasurer Evan Fineman reported a consolidated net margin of $509,406. He told members, "Your equity in the cooperative has helped to purchase and continue to support the assets...(and) supported us through Abbots' default last year." General Manager Paul Hand emphasized the importance of Holly Milk in balancing Inter-State's supplies.

During the year, management and the board studied the Holly plant's functions and options for its continued operation; selling the plant to a third party; building a cheesemaking facility; or entering a joint venture on all or part of Holly's assets. Hand said any change in Holly would be only one aspect of Inter-State's total marketing program. During fiscal 1985, Inter-State paid more than $460,000 in quality premiums to an average 755 producers per month.

Tri/Valley Shifts to Marketing Emphasis

Tri/Valley Growers of Sacramento, CA, is shifting from production to market orientation, reported President Travis Mullenix at the 11th annual meeting. He listed six objectives to accomplish the transition for California's largest fruit and vegetable processing and marketing cooperative—begin planning in the marketplace and work back to the farms and orchards; create a consumer marketing department to work closely with branded, private label, and food service sales group; obtain growth from branded and food service/institutional channels; protect private label retail by helping the trade to do a better job with private label products; become one of the lowest cost producers by reducing total fixed assets in place and refitting the rest to adequately cover short- and longterm-requirements; and improve Tri/Valley's balance sheet.

In his final report to the membership, President Emeritus William Allewelt said net margins of $25 million for fiscal 1985 ending Jan. 31 set a record for the cooperative. In forecasting results for the 1984 pool, Allewelt predicted average returns to members will be more than 125 percent of commercial value, with cling peaches and the mixed fruit ingredients most profitable, and lowest margins for tomatoes.

Arkansas' SFA Marks 40 Years of Service

Southern Farmers Association (SFA) of Little Rock, AR, marked its 40th anniversary at the fall annual meeting in Ferndale. The annual audit report showed sales of $177.3 million, down $15 million, and net margins of $1.8 million, down $3.4 million from 1984. With a $28.5 million net worth, SFA remains strong. The net worth, 40 percent of total assets, is comparable to others in the farm supply group of the Top 100 cooperatives in the Nation. SFA ranks itself among the Top 100. (ACS annually reports financial trends of these Top 100 cooperatives in its *Farmer Cooperatives* magazine; advises the individual cooperatives of their ranking; but does not publish ranking, members of the group, or financial figures about any of the participants who voluntarily supply the information.) In remarks to the members, Chairman Tom Gist, Jr., reminded them new methods may be needed to stay in business in the future. Cooperatives are created to serve the members, united to improve their welfare, and have built a solid record of success, he said. A. M. Feland, III, president and general manager, noted good strength at the local store level in view of economic conditions. In March, SFA completed the first phase of riverboat development and unloaded its first bargeload of fertilizer. SFA was organized in Fayetteville, AR, Nov. 3, 1945 as Arkansas Farm Bureau Cooperative. The existing name was adopted in 1960.

Grant Funds First Issue of Co-op Journal

The first issue of the *Journal of American Cooperation* will be funded by a $10,000 Mutual Service Fund grant from MSI Insurance through the National Cooperative Business Association. First issue of the refereed journal will appear in the 1986 yearbook of American Institute of Cooperation. Jeffrey Royer will be editor and James Baarda his associate editor. Both are agricultural economists with USDA's Agricultural Cooperative Service. The AIC grant was one of 11 Mutual Service Fund awards totaling $52,000 for 1985-86. One of the other grants funded a scholarship program for college students to attend the annual institute of Cooperative Communicators Association.

NCFC, Affiliates Introducing Washington Cooperator

National Council of Farmer Cooperatives and its affiliated organizations—American Institute of Cooperation, Agricultural Cooperative Development International, and Farm Credit Council—are combining efforts to publish a common newsletter, *Washington Cooperator*, in January.

Farmland Shows $61 Million Loss, $4.4 Billion Sales

Much of the $61 million financial loss (based on $4.4 billion sales) was of a nonrecurring nature and the report for fiscal 1986 should be much more encouraging, President Kenneth Nielsen observed in his final state-of-the-Farmland Industries address at the annual meeting in December. Nielsen plans to retire next July. He said the current farm crisis had much to do with Farmland's losses in 3 of the past 4 years. Much of this year's loss came from grain operations and lead to the sale of most Far-Mar-Co assets to Union Equity Exchange and from an unfavorable phosphate rock contract in Florida. A return to "a modest level of savings (margins)" is expected for 1986. His optimism was based in part on the sharp reducation in debt from $860 million in 1983 to $391 million in 1985. The debt-to-asset ratio has increased from 21 to 36 percent.

Commenting on talks between Farmland and Land O'Lakes, he said, "A joint unification study committee of board members and management representatives from our two organizations, has held three positive meetings." Talks not only identified some major hurdles requiring more time to resolve, but also some opportunities for joint efforts in data processing, manufacturing agricultural chemicals, and other areas. Further cooperation between the two cooperatives and others could lead to formation of one effective northern coarse grains marketing system for farmers, comparable to the system for winter wheat and milo available since Union Equity acquired Far-Mar-Co assets, he said. During the annual director election, shareholders chose Dean Esslinger, a farmer from Norton, KS, to replace William E. Rice of Baldwin, KS. In its reorganization meeting, the board chose Robert F. McDowell of Leota, IA, to replace Roger Clark of Brady, NE, as vice chairman and vice president.

Tennessee Farmers' Margins $3.9 Million for 1985

Net margins of $3.9 million for fiscal 1985 were reported by Tennessee Farmers Cooperative (TFC), LaVergne, TN, at its 41st annual meeting in December. Although dollar sales volume decreased, unit sales increased, giving the cooperative a greater share of the State's farm supply market. Sales reached $244.8 million, down $16.3 million. "The modest increase in projected dollar volume for the year didn't materialize because of lower prices on fertilizer, seed, certain chemicals, feed, and some hardware items," said W. E. Bailey, TFC's president and chief executive officer. "The rest can be attributed to a drop in feed tonnage as a result of less demand for feed resulting from fewer livestock and the dairy PIK program," he said.

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Stronger Member Support Helps Universal Sales

Although fiscal 1985 sales of $335.8 million for Universal Cooperatives, Inc., Minneapolis, MN, was down 2 percent from the record 1984 level, member support increased to 97.5 percent of the cooperative's volume. President Donald Armstrong said product diversification also was a factor. Net margins were reduced to a net loss of $227,000 after writedowns for obsolete inventory and establishing a reserve to finance moving the dairy equipment operation from Albert Lea, MN, to Goshen, IN, to tie in with an existing livestock equipment plant. The board also voted to terminate the grocery business due primarily to financial hardships being experienced by cooperatives in the grocery business. Alternatives are being studied to provide CO-OP branded products to grocery and farm supply cooperative members in fiscal 1986. Armstrong said he expected renewed support from several members would help the paint department, which has reported several years of losses. Favorable sales and margins in fiscal 1985 were shown in lubricants, agricultural chemicals, and twine.

Kansas Co-ops Form Chain Marketing Service

Five western Kansas cooperatives have joined to form Chain Merchandising Co-op to provide a reliable grain brokerage service. Coarse grains such as corn and milo aren't generally moved through the same market channels as wheat, so the new merchandising co-op was formed. Manager Terry Evans heads the co-op's office at Dodge City. Each member purchased at least 10 shares of stock and signed a 3-year marketing agreement. Although affiliated with Farmland Industries and Union Equity, the new autonomous cooperative buys and sells grain for the domestic market while Union Equity concentrates on exports. Individual truckers were losing money because of the declining grain business. So the cooperative hires them after monthly reviews on rates, insurance, bank references, and credit checks.

Three Co-ops Share in Williams Pipe Line Settlement

Farmland Industries, Inc., CENEX, and National Cooperative Refinery Association and a noncooperative firm will share in a $30.8 million plus $2 million interest settlement with Williams Pipe Line Company for overcharges brought before the Interstate Commerce Commission in 1971. The settlement was approved last March by the Federal Energy Regulatory Commission and recently upheld by the D.C. Court of Appeals.

LOL Offers New Dairy Beef Feed

A new dairy beef feeding program designed to give dairy steer producers the right feed components for their individual operations has been introduced by Land O'Lakes (LOL), Inc., at Minneapolis. The formulation was based in part on feeding trials conducted by Cooperative Research Farms, Inc., of which LOL and a number of farm coperatives are members.

52/11

Farmer COOPERATIVES

February 1986

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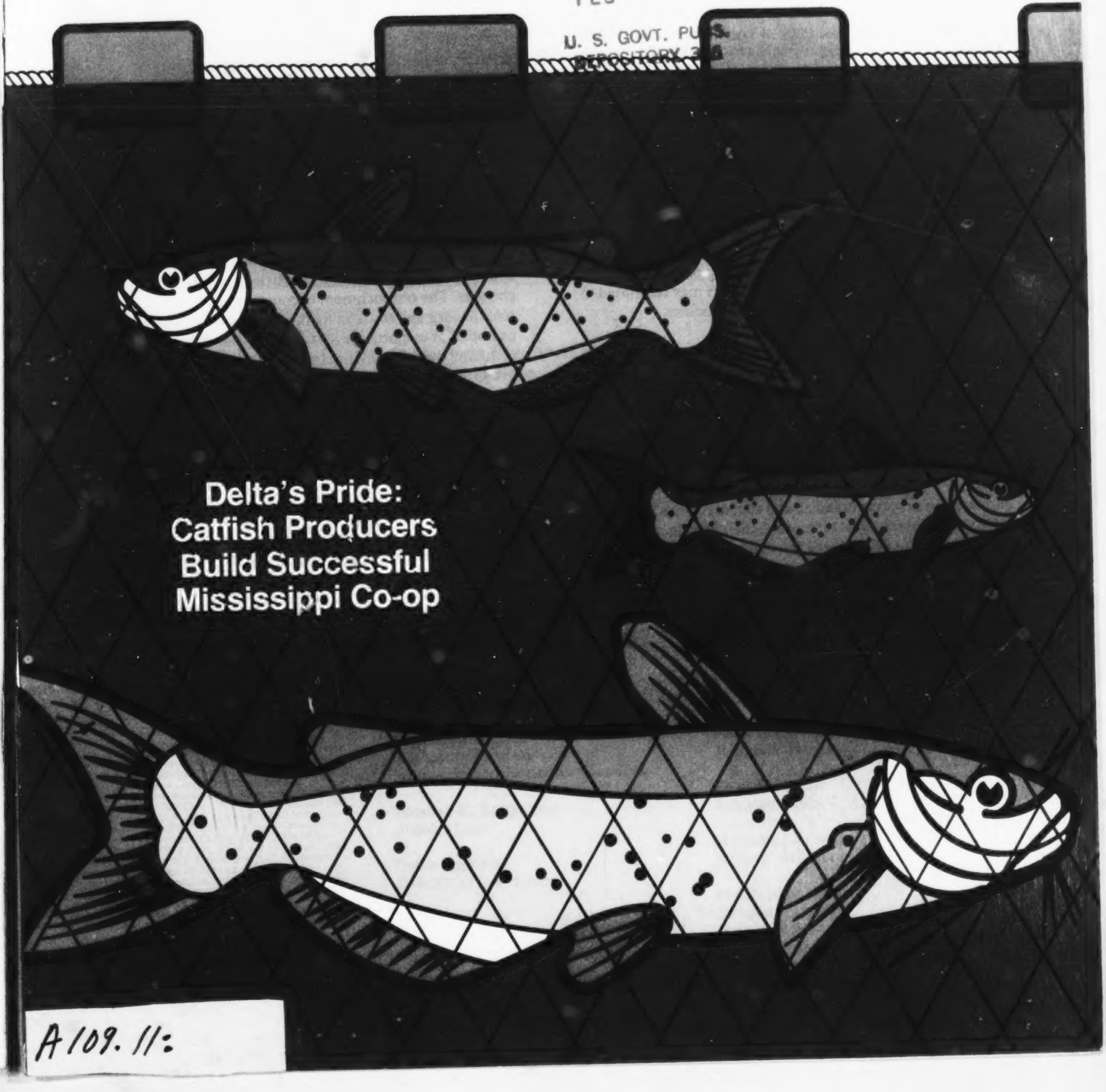

Delta's Pride: Catfish Producers Build Successful Mississippi Co-op

A109.11:

National Systems Perspective for Producers

Farm operators have essentially two methods to achieve market power.

One is through the horizontal organization of producers in the marketing channel. The second is vertical integration into one or more stages of marketing or supply acquisition.

Examples of horizontal organization are commodity bargaining associations. They organize growers to negotiate the sale and terms of trade of raw bulk products to handlers. Similarly, representation of farm operators through professional associations such as the Farm Bureau, Farmers Union, and the Grange is a form of horizontal organization of producer interests. In some cases, these negotiations may be limited to contract terms and not the actual sale of products.

Organization of producers vertically through cooperatives permits members to share in the profits from further processing their raw products. Producer control of product is extended in the distribution channel. Often such activity requires investment in capital intensive value-added processing functions and product differentiation through brand merchandising.

Farmers and ranchers organize and support cooperatives and professional associations to improve their farm incomes by countervailing or neutralizing the market power of their buyers or suppliers, or by creating original market power for themselves. The development of market power depends on a high degree of horizontal concentration or product differentiation in some level of distribution or production.

If we view the total bundle of growers' organizational activity from a comprehensive perspective, we can note it is a combination of both the horizontal and the vertical organization of producers that leads to the most influences over returns for their productive efforts. Key elements of coordination in a systems context determine how solid producers stand as a group and how successful they are in achieving system benefits.

Cooperative leaders are challenged to look at the big picture and think in system terms. Lack of the cooperative systems concept and perspective leads to fragmented marketing efforts and to a situation in which noncooperative firms can divide and conquer. The retrenchment of cooperatives from aggressive roles in corn and soybean marketing represents such an example. Transportation systems are what drive the system including complimentarity between farm supply movements in one direction and grain in the other. A reduced role in one category leaves cooperatives vulnerable in the other.

Strategic planning from a national systems perpsective is necessary if producers are to keep their cooperatives as major participants in the food system.

Randall Torgerson

Randall E. Torgerson
ACS Administrator

Farmer
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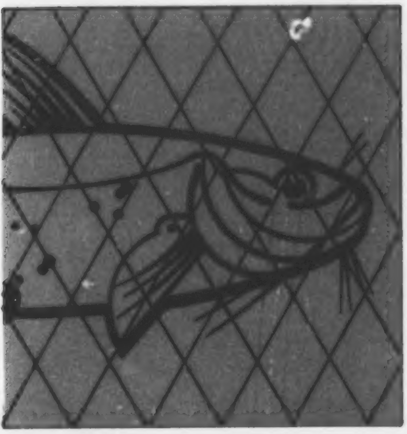

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Delta's Pride: Catfish Producers Build Successful Mississippi Co-op

Success stories are always popular. Though some may sound a bit unbelievable, they are intriguing. So we listen. One such believable cooperative success story is what I call Delta's Pride.

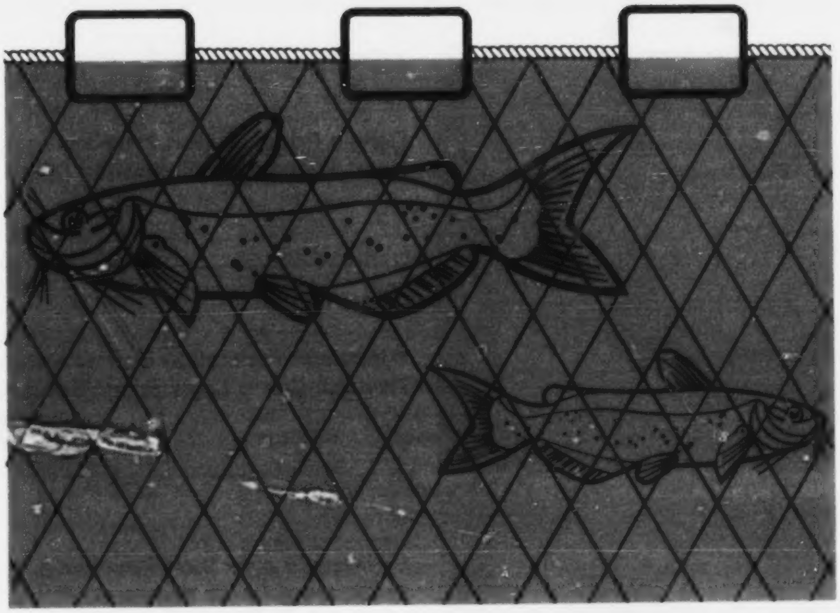
Delta Catfish Processors is the new kid on the block. Four years ago, it opened with 115 stockholder-members. They faced four major competitors within the Mississippi Delta territory. Like a regular cooperative, it was formed out of need.

Delta catfish farmers were producing too much and getting too little for their product and effort. So, they banded together, invested in stock, and opened the doors to their new cooperative in April 1981. At the end of its first fiscal year, their cooperative at Indianola, MS, had processed 12 million pounds of catfish and grossed $13 million. What's more, farmer-members were seeing a turnaround.

In marked progression, volume moved up to 22 million pounds and $27 million in 1983, 40 million pounds and $41 million in 1984, and 54 million pounds and $55 million in 1985. Projections for fiscal 1986 point to a volume of 65 million pounds of catfish and sales of $72 million. Needless to say, "The catfish farmer is now as well off as he's ever been and the future is bright for catfish farming," claims Controller Jimmy Blount.

Experience Helping Industry

The catfish farming industry has had its ups and downs during the past 25 years, but experience is paying off. Farmers are increasingly aware of the constant supervision their ponds require, particularly in monitoring oxygen levels. Their dedication is yielding greater expertise and thus reducing net loss on an annual basis.



Long-term catfish farmers are now realizing higher profits due to an increased demand for their product.

This positive thrust is attractive to many others, but only a small percentage of row-crop farmers are expected to shift to catfish. The ones who do, however, can be only the best farmer-businessmen. They are ones with enough financial backing to afford an expensive, potential risk. Breaking into the catfish business costs as much as $2,200 per acre. Consequently, most future growth will come from existing catfish farms.

In the last few years, members have committed as much pond acreage to Delta Catfish as marketing would allow. Early this year, the board voted to increase the amount by 20,000 acres to 35,000, with a temporary hold at 25,000. For Delta, taking on additional business is not a simple matter. It must consider its marketing ability. Frankly, unsold processed fish mean a loss to the cooperative. Delta also operates on an equitable basis. Members must purchase one share per acre committed. Each share equals one vote.

Third of National Market

The decision to "open up stock" enabled Delta to add 20 new stockholders. Right now, Delta has about one-third of the national catfish market. Four major competitors are still vying to keep their two-thirds share, but the cooperative is not too concerned. Its projections show not only economic but also membership growth.

Total acreage increase will come from new and current members, who are expected to enlarge their businesses 10-15 percent in the future. The cooperative is planning to build a new plant, its fifth plant expansion, and contemplating building a totally new plant to accommodate the growth. The new plant will be located somewhere in the Delta. Though farmers in neighboring States have begun producing them, Mississippi farmers produce 80 percent of farm-raised catfish nationally.

Anticipating expansion, President Sam Hinote believes added business is well earned. He is confident the growing trend will be maintained through expert

Robin Blackledge
Jackson Bank for Cooperatives

Processing starts when catfish, collected from members' ponds, are unloaded at the plant, temporarily stunned by an electronic device, cut into fillets, quick frozen, and packaged for subsequent shipment. More than 700 people are involved in processing alone. (Photos courtesy Jackson Farm Credit Banks)

management and prudent business practices. "We've recruited the top management people in the industry," he says. "They're dedicated to making Delta stay successful. They're not just in it for personal gain." David Allen, director of personnel and projects, says Delta Catfish Processors is kept financially healthy through a retained equity program.

A philosophy shared by the cooperative's founders says members will always produce the top-quality product in the industry. Observing the plant operation, it is evident these people don't just talk philosophy, but are dedicated to doing everything necessary to uphold it

Members have taken notice by making an extra effort to meet quotas and delivery schedules. They are dedicated and loyal because the cooperative has exhibited leadership and is successful, says Hinote. The commitment to excellence permeates the organization from the farm to the processing plant, and through the marketing division.

Under the direction of Bill Dauler, vice president of sales, and his management team, about 50 brokers are in the field consistently, developing new markets.

Catfish as an alternate food source have not always been popular. Once considered a scavenger, farm-raised catfish are becoming more acceptable in the eyes of the buying public. Most potential buyers like the product, says Dauler, although some have been reluctant even to try it. The positive media coverage has helped the catfish image.

The potential market for expanded sales of catfish has only been pricked. Current customers number about 1,200 and include institutional distributors, retailers, specialty catfish houses, and chain restaurants. Dauler says marketing through Sister's and Church's restaurants is only the beginning for growth in the chain restaurant segment. This market has the highest potential for future growth. The West Coast is expected to be the fastest growing region for catfish consumption. Presently, the largest catfish consumers by State are Texas, Louisiana, Illinois, Arkansas, and Mississippi.

Frozen Fish Popular

Catfish is sold in various forms. Fifty percent is frozen. Whole fish account for 45 percent of sales, fillets 34 percent, and steaks, nuggets, and strips less than 10 percent each. (Nuggets are like strips, but have a flavorless black membrane.) Processing 300,000 pounds of fish daily requires more than 700 plant employees. While many are responsible for cleaning, deboning, cutting, freezing, and packaging, others must ensure cleanliness. A lot of water is needed to keep both the fish and plant washed down, but still more to make 75 tons of ice daily. Fresh fish are packed in ice and delivered in refrigerated trucks at 0 degrees Fahrenheit. The fish stay fresh under these conditions and won't freeze for several days.

Longer shelf life than salt water fish is one major advantage catfish offer to consumers. Year-round availability is another. Many consumers favor this odorless fish for its versatility. Traditionally, catfish is breaded and fried. But chefs have discovered many other ways to prepare it. Broiling and poaching are popular, as well as gourmet preparations. Recognizing its broad market, Delta packages fish with new recipes every month, trying to appeal to palates nationwide.

Delta Catfish implements a series of control procedures to ensure nothing but top quality. The process begins with taste tests 2 weeks before, the day before and the day of harvest. The ideal flavor is light and rather sweet. It can be compared to redfish, but most often is regarded as having a distinctive flavor.

Delta Catfish Processors owns the Nation's largest fresh-water fish processing plant. Between 1.1 million and 1.5 million pounds of fish a week may receive the Delta Pride label. The fresh-water catfish have become not only a Delta Pride, but a source of pride for employees, management team, and farmer-members. ■

COOPERATIVE ACTION

TCX Joins Lost Children Campaign

Texas Citrus Exchange (TCX), Mission, TX, has become the first company in the citrus industry to join the national awareneness campaign to "Help Find Our Missing Children" via its Big Tex juices. Information about missing children is being placed on cans of the cooperative's juices along with safety tips for parents and children.

Foodservice Directors Visit Riceland

A group of 24 foodservice directors from Arkansas visited Riceland's Stuttgart facilities early this summer to gain some insight into rice use and preparation in school meals. The directors were given menu planners and recipes featuring Riceland rice products, briefed on the background of the cooperative and rice farming, and shown rice milling and packaging procedures. Riceland is a leading suplier of rice to schools and other institutions.

Louisville Sells Bank Property

The Louisville Farm Credit District Board of Directors has sold property it acquired in 1980 as the site for a new building. The property was sold to a Louisville development firm for $5.9 million. Board Chairman Robert Hester said the stressful agricultural environment, coupled with the uncertainty of the future long-term space needs, prompted the property sale.

Gold Kist Reports $18 Million Pre-Tax Margins

Pre-tax margins of $18 million were reported by Gold Kist Inc. for fiscal 1985 by Peter Gibbons, vice president, finance, during the recent annual meeting. Total assets as of June 30 were $437 million, down $26 million or 6 percent from 1984. Sales volume was $1.54 billion, down 8 percent from 1984, due principally to lower commodity volumes in GK's agri-marketing group. Low fertilizer and feed prices reduced gross sales volume, even though unit volumes of fertilizer, feed, chemicals, farm supplies, and seeds improved. The strong demand for poultry products offset overall adverse commodity conditions. President Don W. Sands said cheap feed ingredients helped the division's profitability. Pork operations showed a net margin for the fourth consecutive year.

Sands said new merchandising strategies are being developed to appeal to part-time farmers and other customers within the trade area. Feed merchandising operations have been consolidated into a separate department aimed at large-volume bulk feed buyers, bagged feed outlets, pet foods, and rapidly expanding horse market. A dry pet food production facility has been added to GK's feed mill at Guntersville, AL, to supply GK stores and eventually other retail channels.

NCRA Sales, Margins, Patronage Up for 1985

National Cooperative Refinery Association (NCRA)at McPherson, KS, reported consolidated net sales of $894.6 million for fiscal 1985 at its 42nd annual meeting Oct. 23. Although this is up 22.5 percent from 1984 sales of $730.2 million, lower product prices limited the increase. Refined product sales volume increased 33.2 percent from 847.6 million gallons in 1984, to a record 1,128.6 million gallons in 1985. This was made possible by the completion of the McPherson refinery expansion earlier in the fiscal year. Refining capacity was increased from 54,000 to 70,000 barrels per day including 25,000 barrels per day of high sulfur (sour) crude oil.

Consolidated net margins were $13.2 million, about equal to 1984. Declining prices and negative refinery margins during the winter months resulted in lower than anticipated earnings. Patronage refunds to member-owners totaled $14.3 million compared with $11.4 million in 1984. Oil and gas exploration and production operations has a successful year. Proven reserves were increased while prduction continued at about the same level as 1984. NCRA participated in the drilling of 197 gross wells (52 net), a new record. During the subsequent board of directors' meeting to elect major officers, Ralph Hofstad, Land O'Lakes was chosen chairman; R. Earl Grossmann, GROWMARK, Inc., vice chairman; Robert E. Wakefield, Farmland Industries, secretary; and Larry D. Williams, president and chief executive officer.

Pine Valley Co-op Joins Wisconsin Dairies

Dairy farmer members of Pine Valley Co-op Cheese at Edgar, WI, in Marathon County near Wausau, have agreed to join Wisconsin Dairies. The vote was 74-5 in favor of the merger. Wisconsin Dairies' Foremost whey products division's two facilities in that central Wisconsin area are expected to receive whey from the Edgar cheese operation. Pine Valley currently has 112 members and produces 5.9 million pounds of cheese at the Edgar plant. The cooperative was formed in 1952. Its members chose Pete Horacek, Athens, WI, as their ex-officio representative on the Wisconsin Dairies board until January when producers in that area will elect a director.

California Cooperators Talk Ag to Media

For the second consecutive year, a panel of California agricultural cooperative leaders, moderated by a farm broadcaster, has appeared on a program to better acquaint urban newspaper, radio, and television reporters with agricuture. Panelists were Tom Smith, president of Calcot, Ltd., cotton marketers; Roger Baccigaluppi, president of California Almond Growers Exchange, marketers of almonds and mixed snack food nuts; James Salisbury, vice president of Sacramento Farm Credit Banks' internal services, credit services for cooperatives; Frank Light, president of Sun-Diamond Growers of California, marketers of prunes, raisins, walnuts, and figs; and Russ Hanlin, president of Sunkist Growers, marketers of citrus products. The program was sponsored by the Agricultural Council of California and California cooperatives. The panelists represented more than 20,000 grower-members. All export their products worldwide.

Canada's Co-enerco Revenues Improve

Cooperative Energy Corporation (Co-enerco), wholly owned subsidiary of Canada's Cooperative Energy Corporation, recently reported gross revenues for the first half of 1985 at $17.5 million, up 22 percent from the corresponding period of 1984. Cash flow from operations improved 48 percent to $10.2 million, compared with $6.9 million. Net margins of $2.4 million increased 30 percent. Production of oil and natural gas liquids averaged 1,723 barrels a day, up 16 percent. Co-enerco is a private company created by 20 cooperatives and credit unions from every province in Canada and the Canadian Government in 1983.

Pennmarva Magazine Bows

Pennmarva Dairymen's Federation, Inc., at Baltimore, MD, has suspended its monthly magazine, *Pennmarva*, in favor of individual publications by the member organizations. The federation was formed in 1968 by Inter-State Milk Producers' Cooperative, Maryland Cooperative Milk Producers, and Maryland and Virginia Milk Producers Association to supply the upper Chesapeake Bay and Washington, DC, markets. Since then, Maryland Cooperative has become a division of Mid-America Dairymen. It chose not to participate in the magazine as had Capitol Milk Producers earlier.

The hands of Peace
reach out, gather in, open up, give to, take from, share with and they are well fitted to plowshares and pruninghooks.

The holiday decorations outside the White House are gone, but the message in a special ornament from the Midwest lives on. This special sculpture ornament was carved by Ken Tvedten, director of information for Land O'Lakes. It appeared on a Christmas tree in the Pathway of Peace, a traditional part of the Nation's holiday decorations on the elipse near the White House in Washington, DC. Fifteen hands, representing farmers, were placed around the perimeter of the ornament, a plain 3-inch wooden disc. The "Hands of Peace" message in the center was taken from Isaiah, the ancient prophet. The idea for the hands came from the cooperative's farmer-owners. The message was adapted from a recent speech by LOL President Ralph Hofstad who talked about making our technology available to others and furthering peace throughout the world. He used the expression, 'take from, give to, share with.'

From Near and Far, They Honor Almond Growers

It's not unusual for a cooperative to receive congratulatory messages from home-State interests on special occasions. California Almond Growers Exchange of Sacramento near the close of its 75th anniversary year, received such a letter from Roger Birdsall, president of the California Agricultural Commissioners Association. He said commissioners "have long recognized the important role of the Exchange in the production and marketing of one of our State's most important crops." But it was the export side of the Exchange's business that produced the most unusual messages. In addition to one from an exporter in Portugal, Premchad Motta with Hindusthan Spices and General Agencies in Calcutta, India, wrote, "I pray Almighty that Blue Diamond (Exchange's brand name) will celebrate not only (its) 100th anniversary, but even 1,000th anniversary." Throughout its anniversary year, the Exchange was receiving special attention with its varied activities—winning in the snack foods category for its new almond snack mix in the 9th annual food service new products contest sponsored by and featured in *Prepared Foods* magazine; showing how almonds are grown, processed, and used in foods to students from Hattori Cooking School in Japan; supplying foil packs of almonds to a liquor company for use in promoting its new recipe booklet to the Nation's top 50 food editors; promoting use of almonds in school meals during a nutrition education and training program sponsored by the California State Department of Education; and playing host to the American Heart Exchange in a "heart healthy" cooking demonstration featuring almonds.

Bush, LOL Execs Discuss Strategy for Ending Hunger

In a continuing effort to develop a U.S. public/private sector partnership to find solutions to world hunger, United States Vice President George Bush held a roundtable discussion with Land O'Lakes President Ralph Hofstad and other executives early in December. Bush and other administration officials were seeking ideas from business to develop a plan for ongoing joint Government/industry programs to alleviate hunger. To illustrate the kind of joint efforts being encouraged, the Administration has cited LOL's initiative in Jamaica. The Jamaican Agricultural Development Foundation, founded in 1984, was established by LOL in cooperation with a U S. Agency for International Development and a Jamaican business. This venture capital foundation takes profits earned from the retail sale of surplus U.S. butter and cheese granted to Jamaica and funnels this money into agricultural development projects. LOL provided the processing technology. For its efforts, LOL has received both the Presidential World Without Hunger award and the Fowler-McCracken award.

In other news from the cooperative, LOL has purchased the F and A Cheese Company division at Bertha, MN. It serves 200 farmers in central Minnesota with hauling and buying services. The purchase includes trucks and fixed assets. Bill Amundson continues as manager of the operation. Meanwhile, two local cooperatives have been approved for membership in LOL, Town and Country Cooperative, Ord, NE, and East Lyon County Cooperative, Little Rock, IA.

At LOL's Answer Farm, a new swine nursery building has been added to facilitate research on pig starter feeds. The 45- by 18-foot structure with fiberglass interior and exterior walls was placed on a concrete foundation over a 2,000-gallon concrete pit waste system. The facility includes an office, feed storage room, and two "pre-heat" chambers where outside air is warmed before it enters the building. Heart of the facility is two 35 by 9 foot research nursery rooms. LOL continues to receive swine feeding research information from its participation in Cooperative Research Farms, Inc., a federation of 15 U.S. and Canadian regional cooperatives who finance, conduct, and share feed research data collected from a group of farms owned by individual members.

Agland Marks 80th With $40.3 Million Sales

Nearly 400 Colorado farmers and ranchers participated at Agland Cooperative's 80th annual meeting in October. Agland increased in margins and working capital from 1984. Total sales for fiscal 1985 were down slightly to $40,372,179, but the $51,679 boost in margins and capital provided future encouragement. President W.M. McKay and Amos Finch, executive vice president and general manager, pledged to keep Agland on a sound financial footing. Founded in 1905 as Potato Growers Company, Agland has evolved into Colorado's largest farm supply cooperative, with bean, crop production, feed, petroleum, TBA, and farm and home divisions. Its name was changed in 1967 to reflect expansion and shift in services from potato marketing to a diversified supply and marketing operation. As a result of its merger with Consumers' Oil Company in 1976, Agland became a member cooperative of Farmland Industries. Agland's historical review says it quadrupled its business volume during the past 25 years and doubled its facilities.

Dairymen, Inc., Sales Top Billion for Fifth Year

For the fifth consecutive year, fiscal 1985 consolidated sales of Dairymen Inc., Louisville, KY, topped the $1 billion ($1.06) mark, members were advised at the recent annual meeting. Sales were based on a member milk volume of 5.47 billion pounds. About a third of the volume was processed by the cooperative's 16 Flav-O-Rich processing plants and handled through Dairymen's extensive marketing and distribution system. Member equity reached a record $87.8 million. The cooperative retired $12.7 million in equities while adding $16.3 million from per-unit retains and patronage dividend investments. Sunbelt Dairy Federation, organized in 1984 by Dairymen and other dairy cooperatives to buffer the impact of prices in the Southeast, increased payments to Dairymen members by about $27 million above Federal order minimums. Average blend price paid to members for Grade A milk reached a record $13.87 per cwt. Operating costs (excluding subsidiaries) were reduced $16.4 million, $1.9 million being saved through a restructuring of 12 producer divisions into three regions. Consolidated net margins reached $10.5 million, up $2.2 million from 1984. During the year, farmers in DI territory participated in a Federal milk diversion program that reduced income and prompted a milk shortage in the Southeast. Before the diversion program ended in March, the cooperative had to purchase millions of pounds of milk outside its trade territory to meet market demands. Hauling costs were recovered through a 6-month, 20-cent-per-hundredweight (cwt) hauling credit granted for Southeast Federal order areas. Borrowings increased about $800,000 to $61.1 million as did investments after depreciation, up $5.9 million to $110 million.

NCBA Signs Agreements With Soviets, Chinese

Separate agreements covering potential trade opportunities have been signed by National Cooperative Business Association (NCBA), Washington, DC, and Soviet and Chinese cooperative associations attending last fall's meeting of International Cooperative Alliance's Central Committee in Washington, DC. The 16-member Chinese delegation was headed by Pan Yao, acting president, and Yang Deshou, federation secretary. After the conference, NCBA sponsored a trip to an upstate New York dairy genetics firm, and tour of West Coast agricultural and consumer cooperatives. NCBA is planning a reciprocal visit to China sometime this year. The Soviet agreement, signed by NCBA's President Morgan Willliams and CENTROSOYUS President Michail Trunov, includes a trade provision. A senior Soviet delegation visited the New York Stock Exchange, world trade center, United Nations, a cooperative housing facility; agricultural and consumer cooperatives in the Sacramento (CA) area; and Nationwide Insurance Companies and Ohio Farm Bureau Federation at Columbus. Frank Sollars, NCBA's first vice chairman, is chairman of Nationwide.

Calcot's Final Cotton Payment $28.4 Million

Members of Calcot, Ltd., Bakersfield, CA, received their final payments on the 1984-85 season crop in September totaling $28.4 million. The cooperative marketed 2 million bales of cotton this year or 47 percent of the cotton grown in the West and 15 percent of the Nation's supply. The payment averaged 68 cents a pound. Sales to Egypt, Yugoslavia, Soviet Union, and U.S. textile mills contributed to members' final price. An $8.8 million per-unit retain payment was authorized earlier by the board. The payment represented primary and secondary retains of $4 per bale paid by members for the 1979-80 season. Calcot is on a 5-year revolving schedule.

GK Margins Top $18 Million on $1.5 Billion Sales

Gold Kist (GK), the Atlanta-based regional farm supply and grain marketing cooperative, is changing its business mix to improve the economic fortunes of its members, reported Chief Executive Officer William Gaston at the 52nd annual meeting in October. Results of fiscal 1985 operations, reported by President Don W. Sands, showed GK's pre-tax net margins were $18 million based on sales of $1.5 billion. Included in margins was $4.4 million received from the U.S. Department of Agriculture in a settlement of losses sustained in the 1980 embargo on a poultry sale to the Soviet Union. Volume was down 8 percent ($47 million) from 1984 due to low commodity prices and declining exports. The weak economy also hurt the retail stores. Low fertilizer and feed prices contributed to reduced volume, but unit volumes improved. Patronage refunds will be distributed in 1986 to members of the poultry and pork divisions. Consumer awareness of health aspects of poultry meat and the growing fast food industry are opening new poultry business opportunities. Agri-Service volume was generally flat due to the farm depression. New strategies, however, are being implemented to improve store margins.

President Richard Bell of Riceland Foods, Inc., at Stuttgart, AR, left, shows visiting Japanese economnist Dr. Shingi Hattori a sample of Arkansas milo. Japan has emerged as an important customer of Riceland's milo, which is fed to poultry to produce the white meat Japanese prefer. (Riceland Foods photo)

Sands said GK is examining the value of operating areas with little potential for profitable expansion such as grain and soybean divisions, pecan processing and marketing, eggs, and farm management. He indicated GK also has been discussing the sale of particular elevators "which we no longer can operate and cover costs." New business opportunities warrant a broader focus, he said, particularly with part-time and hobby farmers who have become a major economic force in the Southeast; supplying pet food and horse feeds through traditional and new market channels; providing farm supplies to additional outlets outside GK retail stores; and supplying more specialized and further processed poultry products from the new plant at Boaz, AL.

Meanwhile, Gold Kist has leased a 223,000-square-foot building in Macon, GA, for use as a major distribution center to help reduce operating expenses and permit more flexibility in fleet management. A contract has been signed with an outside company to furnish drivers, trailers, and a traffic manager. About 20 people will be employed at the center. Danny Jones will be the manager. GK expects to move more than $40 million of products through it annually.

St. Louis District PCAs Okay Merger

Farmer-stockholders of 32 Production Credit Associations (PCAs) in the St. Louis Farm Credit District have voted overwhelmingly to merge their associations into a single PCA. It began servicing customers Jan. 1. The districtwide office will be in St. Louis, but farmers will continue to be served by 19 local offices. Locally elected boards will continue to serve the 19 individual territories. The district covers Illinois, Arkansas, and Missouri.

Wisconsin Federation Boosts Renewal Through Co-op Legislation, Development

The traditional welcome mat for cooperatives at the Badger State's doorstep has been refurbished and enlarged so others might share the benefits of working together on a common cause to improve their economic welfare. Championing this renewal effort is the Wisconsin Federation of Cooperatives. Given the times, the added attention to self-help efforts, using cooperatives as the vehicle, comes none too soon.

Among the nearly 40 State cooperative councils, the Wisconsin group is one of the larger and has a history as being one of the more active. The present federation has begun its 16th year of operation although predecessor organizations brought the cooperative tradition to the State many years before. The present federation came from merging Wisconsin Association of Cooperatives and Wisconsin Council of Agricultural Cooperatives in 1969.

The federation is involved in lobbying, educating, public relations and communications, and technical services for a wide variety of cooperatives. Some recent federation accomplishments include:

- updating the principal State statute dealing with cooperative organization and business practices, culminating a 4-year effort,

- establishing and receiving State funds for a Wisconsin Cooperative Development Council, and

- modernizing an existing State statute about marketing orders and paving the way for creation of new producer marketing orders in milk, corn, and soybeans.

Updating Cooperative Statute

Revision of Chapter 185 was a major federation priority during the last legislative session. The statute is considered one of the better State laws dealing with cooperatives. The changes more accurately reflected current practices and covered all types of cooperatives, particularly those emerging in nontraditional areas such as health, housing, day care, and worker buyout of plants being closed.

The new law covers important changes for Wisconsin cooperatives—voting provisions for mergers and consolidations, treatment of unclaimed patronage refunds, indemnification of directors and officers, access to books and records; principal officers of a cooperative, restrictions on changes to articles of incorporation, use of signed ballots, delegate voting, district boundaries, definition of patronage, and other operating concerns.

Provisions were explained to members, managers, directors, and employees last August at a director and manager legal and financial update conference devoted to Chapter 185 of the State statute concerned exclusively with cooperatives. The teleconference, sponsored by WFC and University of Wisconsin Center for Cooperatives, connected participants at 26 sites around the State with panelists appearing from a Madison studio.

Service on Commissions

WFC was strongly represented on the 23-member Commission on Agriculture appointed by Gov. Anthony Earl last year to formulate short- and long-term solutions to the State crises in agriculture and the rural economy. Commission subcommittees focused on tax policy, rural development, and Federal policy. Among its 76 recommendations, the commission proposed formation of the cooperative

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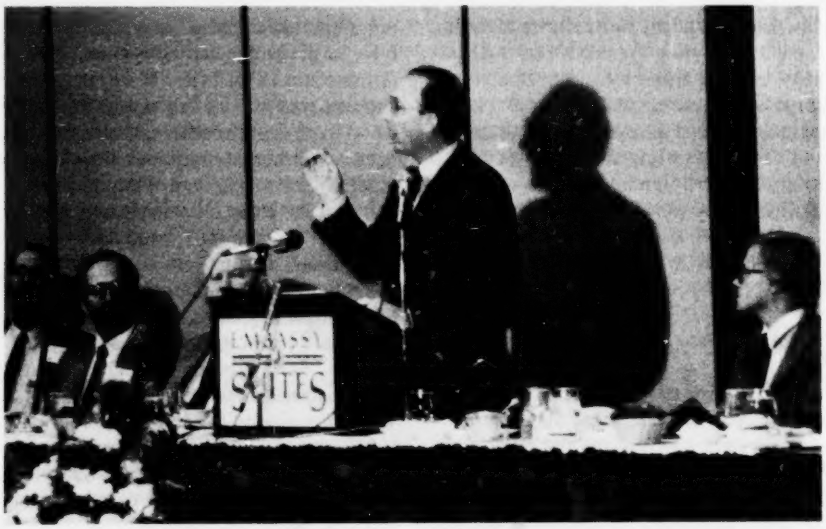
Patrick Duffey
Editor



Tom Lyon, WFC chairman, left, waits for Gov. Anthony Earl to sign the bill providing seed money for the Cooperative Development Council. Others featured on the program were Ervin Elkin, Associated Milk Producers, Inc., left, and Herb Selebrede, Wisconsin Dairies, participating on a young farmer program; Phillip Hein, St. Paul Farm Credit Banks, discussing farm credit legislation; Executive Secretary Rod Nilsestuen, reviewing WFC's legislative and program progress; and Rep. Toby Roth (WI), predicting a strong future for co-ops and advocating expanded agricultural exports. (Pat Duffey Photos)

development council and a commitment of $150,000 in State seed money to help initiate it. The proposal, a major WFC legislative priority, was part of an economic development package considered by the Wisconsin legislature during a special session called by the governor.

In addition, President Tom Lyon served on the Wisconsin Strategic Development Commission, a blue-ribbon panel appointed by the governor to study long-term economic development plans for the State. The commission also endorsed funding the Cooperative Development Council.

Since then, the federation has used a grant from Mutual Service Fund to study private funding sources to help WFC match the State appropriation as required by the legislation. The interim board appointed E.G. Nadeau, who has been serving as council director during its formative period, as executive director. By the end of January, the council was expected to have a permanent board, establish a plan of action for membership, and goals and objectives for 1986. Final reports also were expected on fundraising and cooperative development efforts.

Rod Nilsestuen, WFC's executive secretary, described the council as a "Statewide not-for-profit organization established to assist new and expanding cooperatives. The intent is to create jobs and provide needed services through the self-help approach to business development. It focuses on those employment and service problems not meeting the bottom line requirements of the private sector. The problems are often a costly drain on public resources. The council turns liabilities into assets by redefining social and economic problems as self-help business opportunities and then working with local cooperative entrepreneurs to take advantage of these opportunities."

Implementation starts with the council's business development staff identifying cooperative business opportunities and providing the basic information to prospective entrepreneurs about initial steps to start the business. The council signs a contract with the entrepreneurs to provide development services such as market feasibility studies and preparation of business plans. A financial package is prepared for the cooperative, making use of existing public and private financing mechanisms.

Nilsestuen said a third of Wisconsin's counties had unemployment rates exceeding 9 percent in 1985. Many rural and urban communities were affected.

Goods and services were often caught in the crack between the profit-motivated private sector and increasingly budget-conscious public sector. "The same kind of squeeze seen in housing, health care, and child care is evident in a range of businesses or potential business opportunities where adequate margins just aren't there to allow entrepreneurs to get started or stay in business," Nilsestuen observed.

Helping Those in Squeeze

"Our council's goal is to provide self-help assistance to some of these State residents who fall through the crack between traditional business approaches and Government programs. Tax deductible contributions to the council provide a way to help local community residents get a variety of self-sustaining business enterprises off the ground," he said.

For example, he cited many small farm enterprises "feeling the squeeze of large debts and low commodity prices. Diversifying farm income can help some of these farmers stay in business. Marketing cooperatives for vegetables and fruits, wood from farm woodlots, local dairy beef, and other commodities are ways to diversify and strengthen Wisconsin agriculture. The council provides an opportunity for corporations, cooperatives, foundations, and religious organizations to support a self-help, business approach to community problems not being met by traditional public and private sector activities." State funding and participation in the council came this past fall when the legislature passed a $150,000 appropriation for it.

In signing the measure at the annual meeting, Gov. Earl said the goals of the council were important because they would "help bolster economic development in rural and urban areas. With this law, State Government and cooperatives are going to be part of the solution, making a constructive difference, together, in our State for years to come." WFC believes this first of a kind cooperative development initiative has potential to serve as a workable model for the rest of the country.

The council's interim board met in December to consider an annual operating budget for 1986, review feasibility study results, and approve a plan of transition to a permanent board.

Producer Marketing Orders

Another recent legislative initiative involved establishing strong producer-sponsored and directed commodity marketing orders. The goal, established several years earlier, was to play a major role in attaining a workable agricultural commodity enabling law.

The principal corn, soybean, and dairy marketing orders are now in place and operating. All are covered under a modified State agricultural marketing statute.

Wisconsin Wins Co-op Month State Award for Seventh Time

For the seventh time in the 12-year history of the contest, the Wisconsin Federation of Cooperatives has won the 1985 national award for outstanding activities by a state during Co-op Month last October. Kansas and Illinois were tied for second. North Dakota was cited for "notable effort" in its initial participation in the national promotion.

"We try to use Co-op Month as a vehicle to promote cooperatives," commented Rod Nilsestuen, executive secretary of the federation. "We believe the promotion must start and succeed at the local level, so we provide cooperatives with ideas, speakers, and timely materials that can be modified for local use. We have more than 300 members of different types across the State. This year we suggested they ask the mayor of their local community to sign a co-op month proclamation or have a local co-op week.

"Dozens of cooperatives secure these materials including newspaper news releases and slides for televison station news programs and tie them in to promote their local service whether it be in the form of farm supplies, electricity, or telephone. The regional cooperatives operating in the State provide logistical support for area programs conducted by single or multiple county groups.

"On the State level, we use the governor in promoting cooperatives. For a number of years we worked with him on a day on the farm of a cooperator. For the past 2 years, we have modified our effort to showcase cooperative development. In 1984, we were in Madison, the State's capitol, and last year we went to Milwaukee. We took Governor Anthony Earl and accompanying news media on a tour of a health maintenance cooperative and low-income cooperative housing project. The governor used the occasion to promote the federation's new Cooperative Development Council. Seed money for the council was included in the governor's economic development program subsequently adopted by the legislature during a special session." The governor said, "I don't want the potential of cooperative enteprise to be overlooked as we implement a strategy for economic development."

A caravan of 20 taxicab cooperative members simultaneously travelled the city accompanied by police escort to bring attention to Co-op Day. They were joined by a busload of farm cooperators who wanted to learn how cooperative enterprise was helping in the city.

Four previous attempts under the old law to pass a milk marketing order failed. Marketing orders covering tart cherries and cranberries passed earlier continue to operate. Since the major new ones have come in, several smaller ones have been added including one covering mint growers.

Nilsestuen served as interim manager of the dairy board for its first 6 months of operation and guided it through the transition from the voluntary Wisconsin chapter of the American Dairy Association to a State marketing board. Today, it has a 25-member board of producers and fulltime staff of almost 20 handling a $22 million program of promotion and research. WFC continues to provide contracted managerial services to the corn and soybean boards.

Cooperative Education

Part of WFC's successful effort comes from its close coordination with the University of Wisconsin's Center for Cooperatives staff and its resources. Like the federation, the center is in the midst of implementing program and staff changes due in part to retirement of some key personnel.

"WFC provides about two dozen educational offerings each year in concert with UW's Center for Cooperatives, mostly for federation members. Annual director training classes are moved around the State geographically. The cornerstone of the youth program is the annual tri-State institute cosponsored with the University of Wisconsin at Platteville. It attracts participants from Wisconsin, Iowa, and Illinois. We try to stress generic cooperative training not provided strongly elsewhere. The training applies to personnel from many types of cooperatives including supply, electric, telephone, health, housing, and marketing."

"Like other States, there are too few resources to cover the need. So we work closely in cosponsoring programs with the St Paul Farm Credit district and UW's Center for Cooperatives. We also are establishing ties with the National Cooperative Bank to cover programs for rural and urban emerging cooperatives.

A new federation coordinating committee has been established to meet twice a year with University of Wisconsin College of Agriculture officials to strengthen their mutual interests and build a stronger education program of interest to cooperatives in the process. "We have already seen some movement by the university," said Nilsestuen. "We also try to extend cooperative education to the technical and high schools through vocational agriculture instructors. But we are particularily concerned about building a stronger research program for cooperatives at the university level, recognized by many leaders around the country as one of the most neglected areas of cooperative education in the past decade." ■

Soviets Prime Customer of Almond Growers Exchange

Nearly 20 years after their first contact during a trade mission, the Soviet Union has become the largest single customer of almonds from California Almond Growers Exchange. The first part of a 20-million-pound shipment of Blue Diamond almonds was loaded at the Port of Sacramento last August. It was destined for Leningrad.

The Exchange's first sale of almonds to the Soviets in 1968 resulted from a trade mission there by Jack Axer, now the Exchange's director of reserve market development programs. He was the only one of the nine agricultural delegates to make a sale that year. Since then, the relationship between the Exchange and Soviet agricultural trade officials has grown. Each year, marketers from the cooperative visit the Soviet Union to renew contacts, demonstrate how almonds are used elsewhere in the world, and hopefully return with additional orders for the Blue Diamond almonds.

Since last July, Soviet purchases of almonds have increased fourfold over a normal purchase in one year partly because hazelnuts from Turkey and cashews from India have increased in price. Last August, Exchange President Roger Baccigaluppi joined a trade team headed by Agriculture Secretary John Block and made contact with agricultural trade officials in the Soviet Union and Hungary.

AGP Buys 2 Iowa Soybean Plants From AGRI

James W. Lindsay, general manager and chief executive officer of Ag Processing Inc, (AGP) at Omaha, NE, and Richard A. Coonrod, president and chief executive officer of AGRI Industries, West Des Moines, IA, have finalized the sale of AGRI's soybean processing plants in Mason City and Manning, IA., to ADP.

Lindsay said the strategy for acquiring these plants was to keep them in the cooperative system, and to expand service to AGP's membership. He said AGP will continue operating the plants essentially as they have been in the past. A series of membership meetings in Iowa were conducted in January to explain the agreement.

Coonrod said the two soybean processing plants, even though currently profitable, don't fit the long-term strategies in restructuring AGRI. AGP represents about 11.5 percent of the total U.S. domestic soybean processing capacity. It is owned by 328 cooperatives in 10 States. AGRI, a regional grain marketing cooperative, is owned by more than 330 local cooperatives in 8 States.

Systematic Approach Required in Studying Co-op Mergers

Editor's Note: This article is derived from ACS Research Report 43, Merging Cooperatives—Planning, Negotiating, and Implementing by Bruce Swanson, program leader, management and operations, for the Cooperative Management Division.

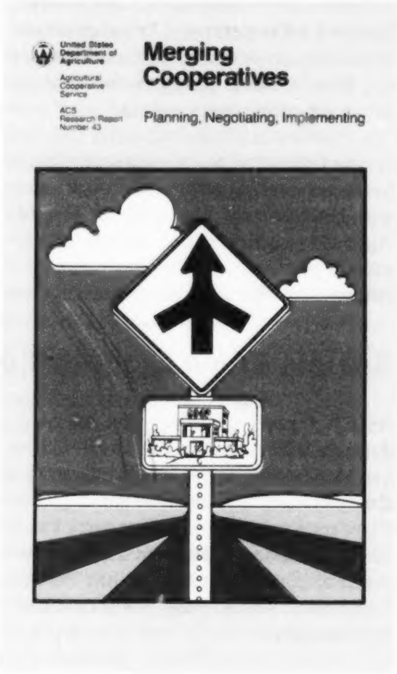
The financial stress affecting agriculture has prompted many cooperatives serving farmers to reassess their operations and in some instances consider merger with neighboring cooperatives.

Both technical and human obstacles come into play in meshing organizations. Merger of two or more associations requires a systematic process moving logically and directly toward the reorganization objective. The process involves three phases—planning, negotiating, and implementing.

Three types of planning must be considered. In long-range planning, interaction and probable results of combining organizations are considered over an extended term. Short-term planning provides for blending facilities and personnel in the combined organization. Included would be provisions for innovative management initiatives for recognizing the new cooperative's identity, stimulating business aggressiveness, aiding employee enthusiasm, and increasing member patronage. An additional planning phase is concerned mainly with carrying out immediate steps involved in joining two or more associations. Immediate planning uses legal, financial, and administrative techniques on a day-to-day basis.

Compare Growth Potential

Strategic and tactical considerations must be included in long-range planning. The strategic or broader view includes comparisons of external and internal growth possibilities. External growth occurs through reorganization with other firms. Internal growth involves expanding current activities or adopting new functions.



United States Department of Agriculture

Agricultural Cooperative Service

ACS Research Report Number 43

Merging Cooperatives

Planning, Negotiating, Implementing

Tactical decisions, narrower in scope, can involve four possibilities: expanding existing markets with commodities or supplies handled; finding new markets for current commodities or supplies; handling new commodities or supplies to better satisfy demand of existing markets; or handling new commodities or supplies for new markets. The strategic-tactical position adopted will be developed according to a formal set of business goals set forth by the organizations' leaderships.

A committee from the board of directors, management, or both, is usually formed by each organization involved. Their task is to determine whether a merger proposal should be carried forward to the formal evaluation stage. Committees should prepare statements indicating the purpose and goals of the merger. The analyses, consultations, and documentation required to evaluate and support a merger can involve much time and expense.

Steps should be taken at the outset to abolish the plan if the likelihood of success seems questionable.

Determining if the organizations can be combined is difficult. It often depends on correctly reading the negative factors at play. Particularly important are the management and directors opposing the move. Measuring the strength of their opposition is possibly the key to determining if the combination will work.

Study Format Varies

If merger conditions are right, the next step is to sort out its basic strengths and weaknesses. Economic feasibility studies may be conducted by outside consultants or analysts within the organizations. Appraisals of legal problems, financial structures, and accounting systems follow.

The format of the economic feasibility study will vary among consultants. At a minimum, it should cover the following areas and include all organizations involved:

- characteristics of the market served;
- products and services provided;
- current and potential market share;
- organizational structure and features;
- operating facilities and capacities used;
- financial features;
- estimated savings by eliminating duplication;
- merger advantages and disadvantages; and
- alternative courses of action and recommendations.

Legal and financial counselors should approve the economic analysis before it is presented to the boards. Without getting into a detailed study of the legal and financial requirements that will be necessary later, they should be able to point out possible stumbling blocks.

When initially considered, reorganization should not be evaluated in isolation.

While viewing advantages and disadvantages of an external growth strategy, the associations should also consider those generated from concentrating on internal growth.

Negotiating Committee Functions

When the combined directors are convinced the move is justified economically, the stage is set for negotiations. Members of the steering committees are often appointed to a joint negotiating committee, because they are familiar with the proposal's details and complexities. Certain board members or management personnel outside this group may, however, have particular expertise and be appointed to the committee.

The negotiating committee:

- establishes policies indicating how the committee will function;
- provides organizational and operational guidelines;
- points out legal and financial requirements; and
- presents the negotiated agreement to the boards of directors for consideration.

Some general policies should be in place for all negotiating committee activity such as recording meeting proceedings, releasing information on the status of negotiations, and settling disputes. They also cover confidentiality of records, selection of professional assistance, and allocation of meeting expenses among the associations.

Particularly important is the input of professional advisers. A merger requires legal and financial expertise. It may also need special assistance in engineering, marketing, accounting, and other areas. Advisers in these fields will sometimes play a more dominant role in negotiation proceedings than should be permitted. Committee members should dominate the process and advisers' participation should be restricted to preplanned sessions where their expertise is required.

Sun-Diamond Growers' Frank Light Resigns

Frank Light, 57, resigned Dec. 18 as president of Sun-Diamond Growers at Stockton, CA, and the board chose William Allewelt, retired president of Tri/Valley Growers, as interim Sun-Diamond president. The cooperative faces $43 million in overpayments to grower-members of Diamond Walnut Growers and Sun-Maid Raisin Growers. In 1980, he helped organize Sun-Diamond as the marketing arm of four California fruit and nut cooperatives

At the annual meeting of Sun-Maid, which he headed for 12 years, Light said Sun-Diamond was not going bankrupt. But a special outside audit and an internal investigation are being conducted to determine how such large overpayments could have occurred. In addition, Sun-Maid controller Fred Allen resigned in October, and two Diamond Walnut management employees have been suspended.

Allewelt, 59, said he planed to stay on only until a new executive is found and hired within several months. He still serves as a consultant to Tri/Valley. Other cooperatives in the federation are Sunsweet (prune) Growers and Valley Fig Growers.

Setting New Policies

In planning the new association's organizational and operating structure, the negotiating committee must decide what policies to adopt. They must also recognize the boundary between their responsibilities for policy formation and those of incoming management for program decisions. The new board of directors also must have some leeway to establish guidelines. Policy matters properly considered by the negotiating committee will include defining objectives of the combined association, developing a program for unifying operations, combining the boards of directors, determining criteria for selecting management and defining its responsibility, and selecting the new organization's name.

Professional counselors are responsible for getting the negotiating parties to agree on legal and financial matters. These experts should be chosen at the beginning of negotiations. Their expertise is needed for appraisal of assets and liabilities, type of legal and financial organization to be formed, estimated costs of reorganizing, bylaw preparation, tax and antitrust considerations, and in some cases, dealing with factions opposed to the merger.

The merger agreement should be presented for approval to the directors of all groups involved. The boards or their representatives will usually meet with the negotiating committee several times to develop some aspects of the agreement. Their sentiments can usually be sensed once the agreement is ready. If their negative feelings seem strong enough to offer the possibility of derailing the agreement, the negotiating committee may be able to sweeten some of its provisions.

Concessions can be offered in one area to offset negative concerns in another. The negotiating committee usually continues to modify and adjust the agreement it reaches until approval. Particularly important during this part of the process is the need to give ample attention to all areas where difficulties could resurface after the merger occurs.

Directors will indicate acceptance of the merger agreement by formal board resolutions. Approval by at least two-thirds of the members from each association is usually required for final endorsement. To strengthen the probability of a favorable vote, an intensive communication effort with members and employees is recommended.

Implementing Merger Proposals

Combining operations of former competing organizations can be troublesome and frustrating. Cooperatives, being member-owned, may experience additional stress because their members are more active than shareholders in a noncooperative corporation. As with most other business activity, appropriate and adequate planning, decisionmaking, and carrythrough can lessen the strain.

A deadline for getting the organization up to operating standard must be set immediately after reorganization. Tasks must be identified and studied and goals established to allow ample time to perform the most demanding ones.

People-oriented areas of the business should get considerable priority when preparing to combine the associations. This would include members, directors, employees, and the general public. Drawing lines of communication, circulating plans and programs, and encouraging support for the new association are of primary importance.

A strong personnel program is particularly necessary. Previous employees must be placed in positions where they can make the greatest contribution. Well-qualified outsiders must be hired when candidates from within are not available. Those with talents no longer required must be removed tactfully and amply compensated. Any pay or benefit discrepancies among the organizations must be resolved quickly. An atmosphere must be established in which employees feel they have a future and a chance to progress.

The cooperative must continue to emphasize providing for members' needs. As the combined association is put in place, the situation must be tracked carefully to prevent any reduction in necessary service to patrons. Competition may try to capitalize on any problems between the new organization and its customers. Adequate preparation of the members prior to actual combination will help lessen such concerns. Once merger is completed, additional emphasis must be made on maintaining adequate levels of patronage.

Operational, Financial Focus

While problems in the employee and membership areas have first priority, operational and financial matters also need prompt attention. Use of new production processes and equipment and facility consolidation or rearrangement often require considerable adjustments. In the financial area, the new association may revamp its budgetary structure and use an expanded lender base. It may also put more emphasis on cash management, inventory control systems, and controlling the cost of borrowed funds for its various enterprises.

Priorities may require bringing some segments of the new association up to full speed before others. The synergistic potential of all areas should be evaluated. Those with the highest potential should be implemented to the earliest extent possible. (Synergy exists when the net returns from a combined organization are greater than the total of those that would be expected if its joining components stayed single.)

Policies and procedures should be standardized, particularly those concerning pricing and credit. They should also be upgraded quickly, if necessary, to minim-

Omaha Stockholders Okay Merger of 37 PCAs

Plans to merge the 37 Production Credit Associations (PCAs) in Iowa, Nebraska, South Dakota, and Wyoming into a single, districtwide association were approved Dec. 27 by a majority of member-stockholders in each of the 9 PCAs balloting on the plan for a second time. The merger was effective Dec. 31.

The second vote was conducted only in those 9 PCAs earlier rejecting the merger during the first vote in November. A second ballot was not required in the other PCAs. A majority of member-stockholders, voting in person or by proxy in each of the 9 PCAs needed to approve the merger for it to be implemented. An average of 53 percent of eligible member-stockholders voted the second time. Only 39 percent voted in the first ballot.

John A. Harling, president and chief executive officer of the Farm Credit Banks of Omaha, said the vote "assures financial assistance from the other Farm Credit Banks in the Nation will be forthcoming to the Federal Intermediate Credit Bank of Omaha and its PCAs."

The new districtwide PCA would be divided into 15 Farm Credit Services regions, each having a regional president and staff and providing short-intermediate- and long-term credit to farmers and ranchers. Local direction and control will be maintained through 15 regional boards. The districtwide PCA board will consist of 15 regional directors .

The merger will centralize the financial resources of the district's PCAs, and increase efficiency and effectiveness. Approval of the merger was a condition for the Omaha Federal Intermediate Credit Bank (FICB) receiving financial assistance from the other Farm Credit Banks in the Nation, Harling said.

The financial assistance from the Farm Credit System will total $340 million. The Omaha FICB received $75 million in September, with an additional $240 million earmarked to purchase high-risk loans and acquired properties early in 1986, plus another $25 million available for future operating losses of the FICB through June 30, 1986, if needed.

ize disruption. An operating system should be developed to preserve the customer bases of the merged associations and lay the groundwork for new growth.

The entire chain of sales, inventory, production, and procurement should be examined in depth once the merged association begins operating. Emphasis should be on correcting any areas that could have a negative effect on customer goodwill. A questioning attitude by patrons usually prevails for some time, particularly where a component of the merger has lost its original identity. It is critical to remove any potential for unfair treatment before it can cause problems.

Savings in Distribution Costs

Regardless of the size or complexity of the combination, the distribution area usually produces considerable economies. Many transportation and warehousing inefficiencies may be eliminated soon after the merger. Overlapping routes, underutilized equipment and facilities, overcapacity, small scale purchases of fuel and other supplies, and lack of centralized maintenance facilities are just some of the possibilities.

If the joining organizations' distributions operations have been inefficient, outside management may be needed. If extensive modifications and changes are required, priorities should be set to ensure the greatest long-term payout.

Reorganized associations usually join major organizational areas and operating activities within a year. The majority usually requires less than 6 months. Settling an issue that should have been negotiated earlier is often involved for those requiring more than a year.

Most associations consider communications vital to a successful merger. Providing feedback to management from members and employees is viewed as essential to the success of reorganization. ■

Canadian College Shifts to Regional Emphasis

The Cooperative College of Canada has sold its office, classrooms, and residential facilities in Saskatoon, Saskatchewan, and moved to a new location in the city. The original campus was built 23 years ago through donations from a group of pioneers in cooperative education.

The move signifies a major shift in program and services offered from the Saskatoon campus to six regional locations across Canada. The college is an educational organization owned by 29 major cooperatives involved in wheat, dairy, fish, retail sales, insurance, housing, and credit.

Educational programs are researched and developed at the national office in Saskatoon and made available to elected cooperative officials, staff, and management, school children, and young adults across Canada. Programs include publication of a handbook for cooperative directors, Institute of Advanced Democratic Studies, credit union director education, delegate and elected official training modules, leadership training courses, and a course on the separate roles and responsibilities of directors and managers.

Staff and management programs train people in aspects of cooperative management. Included are supervisory and management courses, masters degree in cooperative general management, Canadian Credit Union Fellows' Program, and the Institute of Advanced Cooperative Management Studies. Special handbooks on cooperatives are available for students. Working papers stimulate thinking and discussion on critical issues affecting cooperatives. The library at Saskatoon has a large collection of research documents, textbooks, and audio visual information about cooperatives.

Seize Opportunities to Strengthen Co-ops: Hofstad

Necessary change is in the wind on all levels of agriculture. Actions taken now will form the blueprint for survival both by farmers and the cooperatives owned by and serving them, believes Ralph Hofstad, president of Land O'Lakes, Inc., at Minneapolis, MN.

Writing in the December issue of LOL's *Mirror* magazine, Hofstad said, "We have all seen margins on the farm, at members' cooperatives and at the regional and interregional level narrow in recent years. Due to the agricultural recession, the cooperative system is going through much stress. Where the system has overbuilt, where we have excessive duplication of products, services and investments, there you will find economic stress from which some cooperatives will not survive.

"Through cooperation and working together, the cooperative system can consolidate operations and reduce costs. Don't wait until stock is impaired. Don't wait until a banker calls in a loan. Don't wait to be forced into a Chapter 7 bankruptcy.

"Farmers and cooperatives need to recognize there are many opportunities to strengthen the system. Do it now!

"As agriculture slowly comes out of this deep recession, those who seize opportunities will become the mainstay of the system and once again reach out and assure farmers they and their children have an important partner to serve their needs on the farm and in the market."

PEOPLE NEWS

Wallace Dunlap...

received the Pensylvania Association of Farmer Cooperatives (PAFC) distinguished service award at its recent annual meeting. Dunlap was cited for his long career on behalf of farmer cooperatives, climaxed by his term as PAFC's administrative director in 1984-85. Dunlap began his career with Eastern States Farmers Exchange (now Agway) after graduating from Pennsylvania State University. He retired from Agway Aug. 1, 1984. Others honored were Don Robinson, East Lancaster County School District, for contributions to cooperative education, and Enos Heisey, Agway, who had earlier retired from the PAFC board after serving 21 years.

During the subsequent reorganizational meeting of the board of directors, Robert Reich, president of Northeast Farm Credit, Lewisburg, was elected PAFC president. Robert Dever, assistant general manager of Inter-State Milk Producers Cooperative, Southampton, PA, was named senior vice president. Two advisory directors elected were Sue Grab, Hershey, for the youth program, and Frank and Virginia Graybill, Hershey, for the couples' program. Kathy Gill was elected to her first full term as executive secretary, the first since the early 1960s.

Ralph Hudson...

a director for 40 years, was honored by Southern Farmers Association at its recent annual meeting. Hudson was one of the original incorporators of the Arkansas farm supply cooperative.

Dr. Wallace Erickson...

general manager and executive vice president of the Columbus (OH)-based COBA/Select Sires, Inc., has been elected the 14th president of the Ohio Agricultural Council.

Edgar N. Garnett, Sr....

second vice president of Dairymen, Inc., and president of its Old Dominion Division board, received the 1985 Farmer-Member Cooperative Leadership Award from the Virginia Council of Farmer Cooperatives recently at Richmond, VA. Garnett operates a dairy farm near Charlottesville, VA.

William Zimmerman...

has been named vice president of corporate affairs, general counsel, and corporate secretary for the Texas Farm Credit Banks. He had been deputy general counsel for the banks. In 1980, he joined the Bank for Cooperatives as general counsel.

Christopher Hodges...

is the new director of economic research and export development for Farmland Foods, Inc., Kansas City, Mo. He will be responsible for the economic research required by the company plus exploration of export opportunities. He will report to President John H. Westerhoff. Hodges joined Farmland Industries in 1981 and most recently had been director of commodity marketing for Farmland World Trade Company. Farmland Foods, a subsidiary of Farmland Industries, operates 34 hog buying locations and pork processing plants in Denison, Carroll, and Iowa Falls, IA, and Crete, NE.

Tommy Hillman...

Carlisle, AR, has been elected vice chairman of the Riceland Foods board of directors to fill the vacancy created when Stewart Jessup became chairman of the board after the retirement of R.E. Short, Jr. Hillman raises rice, soybeans, and wheat. He also is president of Winrock Farms, Inc., chairman of Arkansas Rice Research and Promotion Board, and a director of the Arkansas Rice Council and Arkansas State Council of Economic Education.

Gerald V. Schuler...

chief executive officer of the Cooperative College of Canada since 1981, has announced plans to leave the college June 30. The executive committee of the board of governors heads the search for a new executive. Schuler's last official function will be at the college's annual meeting switched from December to June 25 and 26.

At Farmland Industries...

shareholders at the recent annual meeting chose Dean Esslinger, a farmer from Norton, KS, to serve on the board replacing William E. Rice of Baldwin, KS. During the board's reorganization meeting, Robert F. McDowell of Leota, IA, was chosen to replace Roger Clark of Brady, NE, as vice chairman.

Joe Stephens...

field seeds marketing manager for GROWMARK, Inc., was elected president of the Western Seedsmen's Association (WSA) at its 86th annual convention in November at Kansas City, MO. Stephens is a 28-year veteran of the co-op's seed division, active in the American Seed Trade Association, and past president of the Illinois Forage and Grassland Council. WSA is a group of seed business and research leaders interested in promotion and development of the grass and legume industry.

John Randall...

Balsam Lake, WI, is the new president of the Wisconsin Federation of Cooperatives. Tom Lyon, federation president for the past 3 years, announced at the annual meeting he was not seeking re-election as an officer. Lyon told delegates he felt "associations are most successful when large numbers of the membership are allowed participation and the highly qualified people on the board of directors deserve opportunities for leadership of this Federation." Randall has been a member of WFC's board since 1978 and has previously served as vice president. He and his wife operate a 600-acre dairy farm outside of Balsam Lake with their son, David, and daughter-in-law Sandie. He has served in numerous leadership positions, including president of the Wisconsin Production Credit Association Federation, chairman of PCA of Luck, past treasurer and current member of the Unity School District Board, treasurer of CEAS II district, and many other cooperative and civic positions. Rod Rommel, River Falls, was elected to succeed Randall as WFC vice president. Lyon will continue to serve on the board.

Harvey Ebert...

group vice president, technical services and dairy policy for Land O'Lakes, retired Dec. 31. He was nationally known as an authority on dairy policy and legislation through his 35-year association with the industry. He joined LOL in 1964 as cheese division manager at Spencer, WI., and in 1967 moved to the corporate headquarters in Minneapolis to become a senior executive and operating officer. During his professional career he was an officer in several trade organizations, National Milk Producers Federation, American Dry Milk Institute, and National Cheese and American Butter Institutes.

At Union Equity Cooperative Exchange...

Erwin Duerksen, president of the corporate board of directors, has been named "Mr. Wheat" for 1985 by the Oklahoma Wheat Growers' Association. He has been a Union Equity director since 1975 and its president since 1981. He raises wheat, alfalfa, and cattle on his 520-acre farm. He has been active in local cooperatives; served on the county ASC committee for 22 years; and serves as a district director of the wheat growers association.

Marlow Erickson...

is the new president of the Minnesota Association of Cooperatives. He succeeds Don Chapdelaine who had been president since 1980 and declined reelection. Erickson earlier served as treasurer for the association. He has been general manager of Revere Cooperative Oil Association since 1967.

Raymond L. Fox...

a livestock, wool and meat marketing specialist with Farmer Cooperative Service (FCS) from 1952-1976, died at a Fairfax (VA) hospital December 18. He had been an agricultural economist with Farm Credit Administration and joined the then new FCS (now Agricultural Cooperative Service) when it became an agency of USDA. Fox was a native of Illinois and earned a bachelor's degree from the University of Illinois. He later studied marketing and law, and while with the agency published several reports dealing with cooperatives and the livestock and meat industries.

At National Cooperative Bank...

Robert L. Thompson, USDA assistant secretary for economics, has been appointed by President Reagan to the 15-member board of National Cooperative Bank in Washington, DC. He is one of three Presidential appointees. He earlier served as senior staff economist for food and agriculture on the President's Council of Economics Advisers. He has been in his present post since March 1985.

At Columbia Farm Credit Banks...

Frank M. Hunt of Lake Wales, FL, and S. Aaron McWhorter of Franklin, GA, have been elected directors of the district board. Both were elected to 3-year terms beginning Jan. 1, 1986, Hunt by cooperative stockholders of the Columbia Bank for Cooperatives and McWhorter by borrowers of the Production Credit Associations.

At Gold Kist Inc....

Holmes Neel of White, GA, has been elected chairman of the board succeeding Charles C. Williams, chairman since 1977, who opted not to seek another term but continues on the executive committee. Neel has been a director since 1963 and vice chairman of the board since 1977. Jack R. Tanner of Dora, AL, succeeds Neel as vice chairman.

Richard Pennell...

senior vice president for corporate and governmental affairs for Harvest States Cooperatives, Inc., has been elected executive vice president of the National Grain & Feed Association (NGFA) effective Feb. 1. He succeeds Alvin Oliver who retired after 29 years as the chief operating officer. Pennell has been with Harvest States since June 1983 when it acquired Northern Pacific Grain Growers, Inc., at Portland, OR. Pennell had been Northern Pacific's chief executive officer. He had been a director and member of the NGFA's executive committee.

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MANAGEMENT TIP

Legislation Assures Assistance for Farm Credit System

Financial assistance legislation for the cooperative Farm Credit System was passed by the House and Senate and subsequently signed by President Reagan in mid-December. The System carries about a third of the total agricultural debt.

One immediate benefit of the bill to farmers is the narrowing of interest costs because Farm Credit Securities are again selling closer to Treasury bills. Several weeks ago the spread was about 100 to 125 basis points (100 basis points equals 1 percentage point). The gap had closed to between 40 to 60 basis points this past week. Before the Farm Credit System crisis developed this spring and summer, the securities were selling at 5 to 25 basis points above comparable U.S. Treasury issues.

Ray Moss Tucker, Kentucky dairyman and chairman of the Farm Credit Council, and Delmar Banner, council president, said they were pleased with the overall product that addresses the three key issues in the council's original proposal:

- Financial assistance—This can materialize—once the Farm Credit System provides for its own self-help to the extent it can without jeopardizing the viability of the district banks and associations—when the Farm Credit Administration certifies financial assistance is needed, the Secretary of Treasury concurs, and Congress appropriates the funds. No dollar limit on the amount of assistance is specified in the bill.

- "Financial warehousing" of non-performing loans and acquired property—The bill would establish a Farm Credit System Capital Corporation to funnel assistance funds to the districts in need. In this way, the corporation would administer financial self-help among the units of the system, while assuring protection of stock and allocated equities held by system borrowers.

Three members of the board will be elected by the system and two appointed by Farm Credit Administration (FCA). However, should Federal money be put into the system, a sixth member would be appointed by the Secretary of Agriculture, and the six would then elect a seventh member at-large. Of the system-elected directors, one must come from a contributing district and one from a receiving district.

- Restructuring FCA—The bill will strengthen FCA as an arms-length regulator with cease and desist powers. The changes would put it more in line with similar financial institutions regulators. FCA will be governed by a full-time three-member Presidentially appointed board, with one of the three serving as chief executive officer.

Other provisions of the bill will go on the books as an amendment to the Farm Credit Act of 1971. They call for electing a seventh director for Farm Credit District boards on an at-large basis by borrowers within the district; prohibiting the chartering of more than one local association to serve the same territory; providing new assurances for the protection of borrower/stockholder interests; and providing the same tax exemption (State and local) for obligations issued by the capital corporation as those issued by the Farm Credit banks. ■

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Farmer COOPERATIVES

March 1986

United States Department of Agriculture Agricultural Cooperative Service

COOPERATION European Style

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Farm Crisis Highlights Linkages in Rural America

The saga of the continuing farm crisis emphasizes the linkages between farm operators, cooperatives, and rural communities.

Commercial farms (those with annual sales of $40,000 and over) account for 34 percent of the farms and about 90 percent of total sales from farms. They account for 89 percent of total investments in agricultural related cooperatives.

It is estimated that at least one-third of these commercial farms are experiencing financial difficulties. While the incidence of cash flow problems is found among producers throughout the country, it is concentrated in the Cornbelt, Northern Plains, and Lake States.

These States happen to be areas where dependence of rural communities on agriculture is high.

When farming is in difficulty, so too are main street businesses in rural communities and public sector services offered by those communities. Farm input suppliers, service firms, and marketers are each integrally dependent on the farm economy. When times are good on the farm, support industries and other businesses prosper.

The mutuality of dependence on a healthy farm family agriculture is found in both cooperatives and rural communities. It is often in times of strife when these messages are driven home. Recent analysis indicates that the bottom of the real farm income trough has not been found and that the current dilemma could extend through 1988 with slow recovery in farm income levels, if any by 1991. This scenario portends continued belt tightening and a difficult adjustment period for both cooperatives and rural communities.

It is important to recognize the role cooperatively owned businesses play in rural communities. Retired University of Wisconsin Professor Marvin Schaars put it succinctly: "Savings of cooperatives declared as patronage refunds are disbursed among many persons and not concentrated in the hands of a few as profits of noncooperative businesses generally are; in addition, such refunds are kept in and spent in the local community." These businesses are also an important element in the property tax base of those communities.

When farm incomes are low and a number of producers are liquidating their farms, pressures build on public services such as primary and secondary schools. If nonfarm employment opportunities are limited, as is often the case in farm dependent communities, the tax base declines and retail sales fall as people leave the community. A North Dakota study as an example, found that statewide taxable retail sales fell 20 percent from 1979-84, while in towns under 10,000 in population, sales fell 31 percent.

Cooperatives are a critical player in furnishing access to markets and services to production agriculture organized on a dispersed owner-operator basis. As we look ahead to the biotech revolution and the structure coming after the present credit crisis, cooperative leaders need to reflect on their role and plan for it.

Randall Torgerson

Randall E. Torgerson
ACS Administrator

Farmer COOPERATIVES

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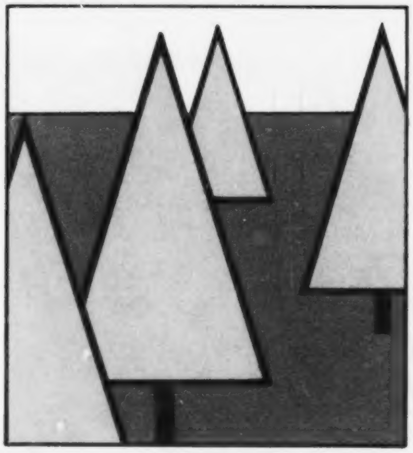

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European Countries Place Stronger Emphasis on Cooperative Education

Editor's Note: Last September, three staff members of Agricultural Cooperative Service (ACS) visited cooperative organizations in five European countries as part of a scientific and technical exchange program offered by USDA's Office of International Cooperation and Development. ACS Administrator Randall E. Torgerson, Thomas Gray, and Gene Ingalsbe went to The Netherlands, West Germany, Denmark, Sweden, and Norway. Purpose of the trip was to: (1) identify researchers and practitioners in the areas of member control, involvement, and education, and (2) determine whether techniques and innovations might be beneficially shared with cooperatives in other countries in an international symposium. Preliminary findings from that trip will be reported in a series of articles. This one presents an overview of the educational perspective of cooperative leaders in the five countries and a more specific description of the educational programs and activities in The Netherlands.

Gene Ingalsbe
ACS Director
Information and Education

Cooperatives are a fundamental thread in the economic and social fabric of The Netherlands, West Germany, Denmark, Sweden, and Norway. A statement in *Raiffeisen, 1985,* publication of the German Raiffeisen Union, best sums the cooperative role:

"By representing the like interests of millions of members from small-scale industries and population groupings and because of their services to the entire national economy, Raiffeisen cooperatives have considerable importance at both the economic and socio-political level. They also fulfill a social function by maintaining services to rural regions and they give a cultural contribution by their intensive efforts to educate and train members and employees. For 120 years now, Raiffeisen cooperatives have been practicing a living form of democracy, enshrined in the fundamental cooperative principles of self-help, self-responsibility, and self-administration."

The Institute of Agricultural Cooperatives in the Province of Friesland, Orangewoud, The Netherlands, is housed in this mansion built on palace grounds of early-day Friesland royalty. ACS staff members visit with officials of the educational center. From left, are Thomas Gray, ACS rural sociologist; G. de Jong, Institute director; D.Tomminga, Institute secretary; Ir. B.J. Hof, Institute director; and Randall Torgerson, ACS administrator.

This recognized societal role results in education as an integral activity of the cooperative business enterprise being afforded a higher status than is evident among U.S. cooperatives. For self-governing cooperatives to perform a positive role, elected members are the primary focus of educational efforts.

The general objectives are to qualify them for their tasks of directing the affairs of their organizations, including assuring members' financial interests are protected and enhanced, and finding and evaluating hired professional management.

In some of the countries, elected members in the highest position worked full time, and in other cases on a part-time basis but with full responsibility for the day-to-day affairs of the cooperative.

As in the United States, another focus group comprises young farmers and their wives. The problem is the same: the young farmers are not aware of why the cooperative was started, what its function is, and what their role and responsibilities are.

Employee training on cooperatives is particularly important in these countries because federal law requires employees be represented on the board, usually one-third.

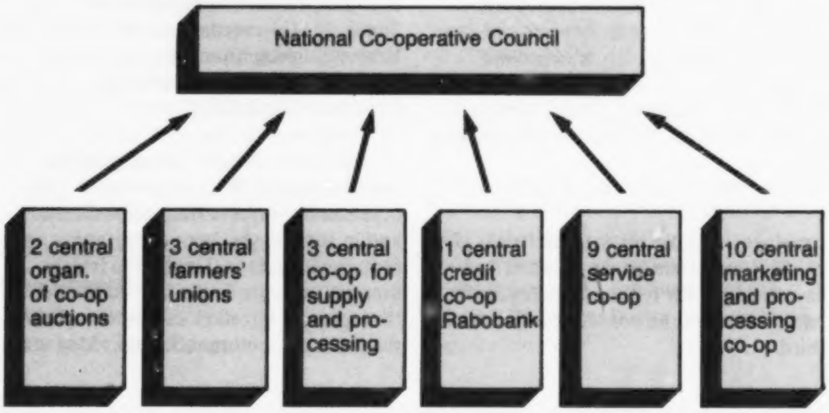
Approach Compared

A general characterization of education activities, relative to those in the United States, is : (1) coordination of effort is better; (2) programming is more structured; and (3) investment is higher in fixed facilities and staff.

A major achievement in each of these countries is the development of an apex organization representing cooperatives, and in some cases, both cooperatives and farm organizations. Unlike the fragmented structure in the United States, this apex organization usually comprises the general farm organizations along with

Staff members from the Agricultural Cooperative Service visited the Van der Zijp dairy farm. The 160-acre, father-sons operation is one of the larger farms in the country. The house and two of several barns are interconnected. In terms of farm equipment and operating techniques, the farm is comparable or better than most U.S. dairy farms. (Photos by Gene Ingalsbe)

Figure 1—Cooperative Apex Organization in The Netherlands


National Co-operative Council
2 central organ. of co-op auctions
3 central farmers' unions
3 central co-op for supply and processing
1 central credit co-op Rabobank
9 central service co-op
10 central marketing and processing co-op

various cooperative sectors such as credit, purchasing, processing, marketing, and service.

Beyond the primary benefit of speaking with one voice on behalf of farmers' interests in matters of public policy, the resulting coordination of effort has had a positive effect on all farmer-related activities, including education.

Even where programs are being carried out at the national, regional, and cooperative level, a clearer understanding exists on who does what. The resulting less duplication of effort and better use of materials suggest a more cost-effective outlay for education.

Education in The Netherlands

Being realistic about the kind of involvement available from members can help improve the effectiveness of education programs.

Dr. H. M. Raemaekers, a sociologist working for the farmers union and an education and training consultant to cooperatives, identified various levels of involvement in a cooperative. While these levels may not be present in every cooperative, they are realistic objectives and they help target education activities.

He charts the levels in pyramid fashion. At the base, he contends it is possible to gain the confidence and trust of 90 percent of the membership. Yet only 30 percent will ever develop basic knowledge of cooperatives in general and of a specific cooperative in particular. Only 10 percent can be counted on for loyalty to a degree that these members "will defend the cooperative verbally." Builders, members who actively recruit and hold office, at best account for 1-2 percent, and less than 1 percent will take active and innovative leadership positions.

Cost effectiveness of educational activities is enhanced also by minimizing duplication. The country uses a regional approach for carrying out educational programs and a national organization to help prepare educational materials.

The National Co-operative Council for Agriculture and Horticulture (NCR) is the cooperative apex organization. NCR represents 28 central cooperative organizations (fig. 1). Headquartered in The Hague, it has a staff of 10, including three economists and three lawyers.

Aims of NCR reflect a strong educational orientation. They are:

- studying problems of economic, legal, fiscal, or organizational nature, especially where these problems affect the principles of cooperation, either directly or indirectly;
- supplying information on the principles of cooperation, both within the agricultural sector and to others, such as the Dutch Government, the Parliament, and the press, schools, and foreigners;
- publishing a bimonthly paper, "Cooperative," brochures and other printed matter about the cooperatives;
- giving lectures about the history, theory, and practice of the cooperatives;
- and consulting the Dutch and European Governments about cooperative problems and legislation.

Dr. G. J. ter Woorst, director of NCR, lectures at the Wanningen Agricultural University through a cooperative chair funded by NCR members. NCR has developed a comprehensive set of educational materials in two volumes for use by the regional institutes.

The Netherlands has at least one of these institutes in three of four geographic regions. The fourth region is covered by the farmers' union, one of the 28 organizations affiliated with NCR.

Institute in Old Mansion

The most elaborate regional educational facility is the Institute for Agricultural Cooperatives in the Province of Friesland in Oranjewoud. The institute was founded in 1946 and in 1953 it bought a mansion built on the palace grounds of early-day Friesland royalty.

"The site has had a positive impact on cooperatives," says D. Tamminga, secretary. "They know it is the cooperative home. They like to come here." The institute's relationship to cooperatives, he says, is to "stay beside, not on top of," meaning the institute's role is to provide information and not to decide policy.

The property was bought by the Friesland cooperative bank and given to the institute, which is owned and funded by 19 member cooperatives. The annual total cost to operate the facility is $250,000. Course fees bring in about $36,000. The remainder is covered by a fee structure according to cooperative business volume.

A staff of five persons, including three educational specialists, conducts a wide variety of seminars and workshops and publishes the institute's own magazine, "Bolwerk."

Tamminga sees three groups as having influence on a cooperative's success: (1) employees, "who get training from the unions"; (2) managers, "who get courses everywhere"; and farmers, "who are the education focus of the institute."

About 50 training days are offered in programs running from October through March. Courses range from single days for elected members' wives, to 4-day workshops for young farmers, to a progressive 24-day program spanning 2 years for elected members. Separate courses are designed also for managers and board chairmen.

Examples of course subjects include financial management, marketing, product research, cooperative history and principles, board/manager relations, and how to speak in behalf of cooperatives and agriculture.

In the past 5 to 10 years, Tamminga says, "the education focus has changed from co-op organization building to the farmer-member role. The need is recognized to focus on the unique differences of cooperatives and to develop the ability to defend the interests of members." ■

Dissolution of Carolinas' FCX Cooperative Continuing

The bulk of the 50-year-old FCX farm supply and grain marketing cooperative system serving farmers in North and South Carolina has been dissolved. Court action this winter assurred most of the operating facilities remained in the hands of FCX's neighboring cooperatives.

The U.S. Bankruptcy Court for the Eastern District of North Carolina at Raleigh agreed on Jan. 31 to the FCX board's plan to sell assets in North Carolina to Southern States Cooperative (SSC) of Richmond, VA. Last November, FCX had accepted a similar offer from Gold Kist Inc. of Atlanta, GA, to buy facilities in South Carolina plus poultry and hog operations in both North and South Carolina. The court subsequently approved the plan. Final settlement on SSC's offer was expected about mid-February.

At one time in recent years, FCX had about 175 employees in its home office at Raleigh. Those limited people, who remained after the court action in January, left the cooperative after the settlement in February. FCX was, however, expected to maintain a small office for about a year to handle lingering details. About March 1, FCX filed a plan with the court for disposition of its office building in Raleigh, the land it's on, a tract in Research Triangle outside Raleigh held by FCX as a future office site, plus about $12 million invested in interregional cooperatives, principally CF Industries, Inc. (fertilizers), Universal Cooperatives, Inc. (production supplies and equipment), and FFR Cooperative (seed).

FCX also was one of the cooperatives investing in the now defunct Energy Cooperative Inc. refinery near Chicago. Legal action over supply contracts has been pending since the facility was closed in 1982. Of the other original members, both Landmark and Farmers Petroleum Company (Michigan) are now part of Countrymark, Inc., Midland Cooperatives merged with Land O'Lakes, also a member, and CENEX now operates in an expanded territory.

SSC has been operating FCX grain elevators and buying grain in North Carolina since an interim lease agreement with FCX last September. Gold Kist had a similar arrangement for South Carolina and hog and poultry operations in North and South Carolina. SSC played a supportive role in the formation of FCX and over the years the cooperatives have been partners in joint endeavors. Last year, FCX posted sales of $230 million, about two-thirds of it in North Carolina. SSC's volume for fiscal 1985 was $677 million. FCX has had comparable working relationships with Gold Kist over the years, particularly in poultry operations. Fiscal 1985 sales for the Atlanta-based cooperative were $1.5 billion. Both SSC and Gold Kist were expected to hire the bulk of FCX employees who would continue operating facilities in the two States so local farmers could continue getting service from people they already know.

Last September, FCX filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The cooperative had posted losses of nearly $18 million over the past 2 years. Columbia Bank for Cooperatives was the major and only secured creditor.

Danish Priority Voting System May Apply to Changing U.S. Ag Cooperatives

Editor's Note: This article is based on "Valg Efter Prioriteringsmetoden" a Danish article published in Saertryk of Andelsbladet (No. 44, 1970) and collected by the author, Gene Ingalsbe, and Administrator Randall Torgerson from Agricultural Cooperative Service as part of a scientific and technical exchange program offered by USDA's Office of International Cooperation and Development.

In a drive to remain competitive in the market place, U.S. agricultural cooperatives have become larger, more diverse, and complex. Independent locals, once handling only marketing services or input supplies, are now accompanied by multipurpose secondary and third-tier federated and large centralized organizations.

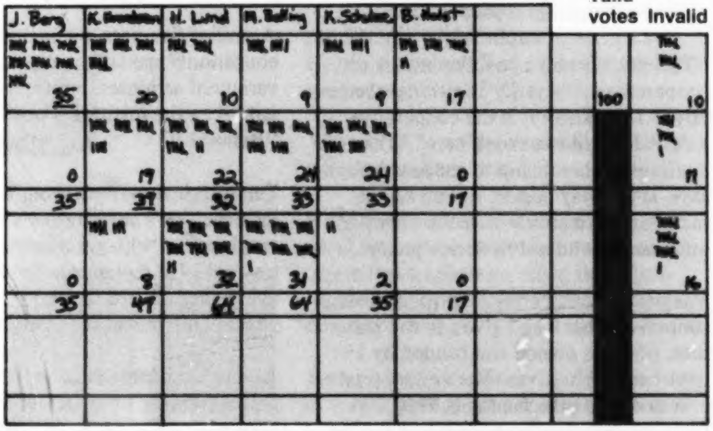
Expansion of a cooperative organization across geographic lines and into multiple activities can raise special member problems. Once primarily local, membership may now extend into several States and other regions of the country. Farmers from many different backgrounds, farm sizes, commodities produced, and other characteristics become mixed in one organization.

This diversity can fragment farmers' expectations and place multiple and often competing demands on the organization. Minority groups may feel vulnerable and subordinated to the interests and needs of larger sub-groups within the cooperative. Under such pressures and conflicts, member participation and membership may decline.

Minority Representation

Some Danish cooperatives have instituted priority-voting methods in their election procedures to prevent larger groups of members from gaining dominance over cooperative resources and help guarantee minority group representation in cooperative decisionmaking.

Figure 1—Danish Cooperative Priority Voting Method



Candidates	J. Berg	K. [illegible]	H. Lund	M. Balling	K. Schulze	B. Holst		Valid votes	Invalid
1st Place votes	35	20	10	9	9	17		100	10
2nd Place votes	0	19	22	24	24	0			11
	35	39	32	33	33	17			
3rd Place votes	0	8	32	31	2	0			16
	35	47	64	64	35	17			
4th Place votes									

This priority voting method is used by most of the large Danish dairy cooperatives. Its purpose is to encourage the democratic character of cooperatives by creating an election method with built-in possibilities for minority group representation. An example of a balloting diagram used under such a system is presented in fig. 1. The steps taken in following the priority election method are:

(1) In completing the ballot, each member must write the name of the preferred candidate in the No. 1 spot. The name of the second favorite candidate is placed in spot No. 2, and third favorite in spot No. 3, etc. Members may write as many names on the ballot as they wish. But each candidate must be ranked separately.

(2) In tabulating election results, they sort out candidates given first priority on members' ballots. The total number of votes cast for top priority candidates divided by the number of positions up for election, yields the minimum number of votes needed to win a position. This number is termed the winning proportionate vote.

(3) Second-choice votes are counted when first-priority candidates do not receive enough votes to fill available positions. Votes candidates receive under this choice are added to votes received under the first priority. Winning candidates must have vote totals (total of both first and second priority) equal to or exceeding the winning proportionate number of votes (as calculated in the second step).

(4) If vacant positions still remain, votes cast for third priority candidates are counted. Votes each candidate receives for first, second, and third choices are added. This process continues until all positions are filled or until all votes for all priorities are counted and added.

(5) If no candidate receives a winning proportionate number of votes after a count of all priorities, the candidate with the most votes wins.

(6) In case of ties, the candidate with the most first-priority votes, wins. If the tie continues, the second-priority votes are counted. If still no winner results, lots must be drawn. In cases where one person is being elected, the winning proportionate number of votes is half of all valid votes plus one or a simple majority.

Thomas W. Gray
ACS Rural Sociologist

(7) Candidate(s) with the most votes above the winning proportionate number—within each priority—win contested position until all positions are filled, or until vote counters move on to the next priority.

Calculating the Votes

In the example presented in fig. 1, 100 valid votes were cast. Three positions were open. Therefore the proportionate winning votes number was 34 (100 divided by 3 = 34).

When the first priority votes were counted, candidate Borg was the winner with 35 votes. None of the other candidates received sufficient votes in the first-place balloting to fill the remaining positions. So the count moved to second-priority votes.

Candidate Knudsen won with 39 total votes, 20 first-place votes, and 19 second-place votes. No other candidate obtained the minimum total. Moving to third-place votes, candidates Lund, Bolling, and Schulze received sufficient votes to win a position. Lund received 10 first-place votes, 22 second-place votes, and 32 third-place votes for a total of 64. Bolling received 9 first-place votes, 24 second-place votes, and 31 third-place votes for a total of 64 votes. Schulze received 9 first-place votes, 24 second-place votes, and 2 third-place votes for a total of 35. However, only one position was open. Schulze was immediately eliminated. Both Lund and Bolling were tied with 64 votes and Schulze had only 35. But Lund had more first-priority votes and therefore won the position.

Our three contested positions were now filled. Borg won first, having gained sufficient first-place votes to win. Knudsen won next, earning enough first- and second-place votes. Lund filled the last position by having enough first-, second-, and third-place votes, plus breaking the tie with Bolling because he had more first-place votes.

This priority voting method doesn't guarantee minority groups a position. However, it tends to minimize the total votes needed to place a person in office.

Typically, under a most-votes-wins method, all votes are cast at once. Each member has one vote for each open position. The majority could dominate the balloting by selecting a favorite with each vote cast.

Under a simple-majority-voting method, the three positions would have been filled in separate balloting. The winning proportionate vote each time would have been a simple majority (half plus 1). Again, the majority could dominate and eliminate minorities from a position.

Under the priority voting example, only 34 percent of the vote was needed to place an individual in office. Had four positions been up for election, only 25 percent of the vote would have been needed, making positions more accessible to minority sub-groups.

As cooperatives expand across geographic lines into new markets and activities, heterogeneity of membership increases as well. Priority voting may be a method for some cooperatives to consider in helping all members recognize opportunities to articulate their needs in the organization. ■

GICL Advances Institute to June Date at Missouri

The 15th annual Graduate Institute of Cooperative Leadership (GICL) will convene on the campus of the University of Missouri in Columbia a month earlier than usual this summer. Because of a change in location to the university's campus, dates of the two-week-long school have been advanced from its usual mid-July period to June 1 to 13.

Prof. Charles Cramer, GICL executive director for the 16-member board of trustees, said about 40 future cooperative leaders are expected for the program. He said the program revolves around four goals for the school established by the original board—social, political, economic, and international environment; analysis of agricultural economics in terms of market structure and economic organization; and general concepts of leadership and current issues facing cooperatives.

A number of speakers featured on the program have been appearing for a number of years. Some of the better known speakers this year will be Dr. Richard Scammon, director of Election Research Center, Washington, DC; Roger Blackwell, marketing professor at Ohio State University; Randall Torgerson, administrator of USDA's Agricultural Cooperative Service, Washington, DC; Sheldon Stahl, economist from Midwest Research Institute, Kansas City; Michael Boehlje, University of Minnesota; and Roger Mitchell, Dean of the University of Missouri College of Agriculture.

Ninety organizations were represented among the 550 people who have attended past institutes. They came from 28 States, Guam, Thailand, and Sweden. Gene James from Southern States Cooperative at Richmond, VA, is chairman of the GICL board.

Fee for the institute remains the same as in recent years, $1,250 to cover tuition, room, board, and incidentals. Individual sponsoring cooperatives or organizations are responsible for transportation costs. Nomination forms are available from: Dick Lee, 1-98 Agriculture, University of Missouri, Columbia, MO. 65211 (Phone 314-882-2480).

Shadow of Dairy Surpluses Hangs Over Discussions of Farm Bill at NMPF

Differing viewpoints of three key political individuals who figured in development of what was to become the 1985 farm bill's dairy provisions were highlighted at the 69th annual meeting of the National Milk Producers Federation recently in Orlando, FL.

Agriculture Secretary John R. Block and Rep. E. (Kika) de la Garza (TX), chairman of the House Agriculture Committee, agreed to differ about provisions of the then-pending 1985 farm bill. Congress passed the bill and President Reagan subsequently signed it into law in late December after the convention.

Block said "both the Senate and House recognized farmers needed to be able to adapt to market condition changes." The emerging farm bill, he said, would reduce loan rates for grain and cotton and key them with market prices, to allow more effective competition against foreign producers.

Pointing specifically to the dairy industry, he said, "It is ironic that while we are attempting to make price supports for our other major commodities more competitive and move away from supply management, some are trying to move dairy in the opposite direction. This simply doesn't square with economic common sense. I know there are some in the industry who share my belief."

He said a House proposal calling for assessment was not a good one. "Hard as it may be to believe, producers would have no idea what the rate of assessment would be under this plan.

"Dairy producers would be required to fund the excess above the 5 billion pounds the Government would be forced to purchase under this proposal. According to current projections for fiscal year 1985-86, producers could be responsible for almost 12 billion pounds for the diversion program at a potential cost of $1 billion or over $1 per hundredweight (cwt.)," the secretary pointed out.

NATIONAL
MILK PRODUCERS
FEDERATION

Agriculture Secretary John R. Block and Rep. E. (Kika) de la Garza (TX), chairman of the House Agriculture Committee.

"I cannot imagine any farmer wanting to pay any assessment. Let's face it: it is a tax on dairy farmers."

Dairying Returns Still Good

Despite the price support having been reduced three times since 1983, Block said dairy farmers must recognize enterprise returns for dairying are still as good or better than most likely alternative farm uses. He said his staff has spent more time on dairy matters than any other segment of agriculture.

"I believe you can appreciate that during all my work and that of my staff on the 1985 farm bill—and for that matter, during all of my tenure as Secretary of Agriculture—I have spent more time and effort on dairy than any other issue. The last 5 years, with seven shifts in legislation, have been absolutely wrenching for your industry.

"The lesson I hope we will draw from this experience is this: Government is not a reliable substitute for the marketplace in determining fair prices."

He said the present time was critical for decisions for policymakers and the industry itself. He said the public's patience is running out on costly legislative quick-fixes such as those enacted since 1981.

"I don't think anyone wants to have seven more shifts in dairy legislation over the next 4 years. And unless we reach agreement on long-term effective solutions, I believe continued public support for a Federally supported dairy program will be in jeopardy.

"Most of the long-term, non-political conditions for the dairy industry are quite favorable. Productivity will continue to climb, thanks to ever-improved breeding and the new breakthroughs with bovine growth hormones. This is good news for American consumers, and bodes well for the hungry people of the world. It can and should mean good news for the industry, provided our public policy conforms to common sense," he said.

George A. Martin
Assistant Editor

Focus on Agriculture

Rep. de la Garza said he believed most people seemed to take for granted the Nation's bountiful food supply. And because it is so bountiful, people have stopped thinking about agriculture.

"But I do not intend to let this country stop thinking about what agriculture means to America. I am going to talk about this issue every time I get the chance, because if we don't give people the facts about agriculture, we won't be able to convince the public that it should and must support a sound Government farm policy," he said.

"I would be happy if I could come to you tonight to tell you the outlook for our farm economy is good. It would be nice to predict all efficient farmers are going to earn good incomes in the years ahead. I would love to be able to say our only problem will be keeping up with the demand for milk and other farm products."

Problems Ahead for Agriculture

He said agriculture is going through what amounts to a depression in many areas. Not all parts of the country or segments of agriculture have been hit to the same degree. But even for areas so far escaping the worst of the squeeze, there are problems ahead.

"If I look far enough into the future, I can be an optimist about agriculture. Population and food demand are going to grow in the years ahead. By sometime in the next century," he said, "we could be concerned again about whether we can produce enough to meet the world's needs. But for the present, and the next few years, our problem is farm income."

Rep. de la Garza said he thought urban America now agrees it has a stake in trying to do something to help rural America. It is good news because it "gives us a chance to find solutions. No farm bill can become law unless urban members of the House (and Senate) are willing to support it or at least accept it."

He pointed out, "depression in agriculture doesn't stop at the farm gate. Agriculture these days is a giant industry that includes millions of people who work in towns and cities. The total industry of agriculture accounts for 20 percent of all private employment, 25 percent of our trade, and 20 percent—one fifth—of the Gross National Product. This means a squeeze on the farmer affects many other Americans."

"I know some people like to talk in generalities about getting the Government out of agriculture. But that is—to put it kindly—talking nonsense when it comes to dealing with the problems we face today. There is a totally legitimate role for our Government to play in helping to stabilize the agricultural economy, and it can be done at a cost that is very small in comparison with the total Federal budget...

"Maybe a totally market-oriented farm policy is the best program we could adopt—if all you are concerned with is pure economic theory. But farmers don't pay their bills with theory, and there is no really free international market in farm products today. Our farmers do not compete with others on a fair and even basis. They are forced instead to compete with subsidized agriculture in almost every part of the globe."■

Initial U.S. Farmer-to-Farmer Program Volunteers Depart

A group of 21 farmers and eight wives have been dispatched to help farmers in six countries of the Caribbean and Central America as part of a new Farmer-to-Farmer program in agricultural technical assistance being managed by Volunteers in Overseas Cooperative Assistance (VOCA) in Washington, DC. VOCA is headed by Kenneth Naden, former president of the National Coucil of Farmer Cooperatives.

At its sendoff from Washington in January, the group met Rep. Douglas Bereuter (NE) who sponsored the legislation, and M. Peter McPherson, administrator of Agency for International Development (AID), which is funding the pilot program under a $400,000 grant. (A portion of the 1985 farm bill instructs AID to make the program permanent. Details are pending.) Participants are in Haiti, Belize, Costa Rica, Jamaica, Panama, and Barbados. They will be consultants in agricultural enterprises such as beef, dairy, vegetables, and poultry and technical areas such as well digging, electricity, and welding.

Congressman Bereuter said, "The program supports volunteer U.S. farmers' travel to spend 4 to 12 weeks in developing countries. Their job will be to give direct hands-on technical assistance in improving the efficiency of farming operations and improving purchasing power of rural people." VOCA has had 15 years' experience sending volunteer cooperative business executives to give managerial advice and assistance to cooperatives in Third World countries. Volunteers furnish their time and advice without compensation except for travel and living expenses.

Naden told the volunteers, "Your contributions will enlarge and strengthen the U.S. foreign assistance program by extending the benefits of volunteer work at the grassroots level. Positive results will flow from your experience, imagination, and hard work." Arkansas furnished seven of the volunteers, Nebraska six, and California four. The rest came from Missouri, Virginia, Minnesota, and Texas. Almost half the volunteers were sent to Haiti.

U.S. Dairy Industry 'Insignificant' Player in World Market, Tracy Tells NMPF

Dairy farmers from across the Nation were told "the United States remains an insignificant player in the international dairy market." Alan Tracy, USDA's Deputy Assistant Secretary for Marketing and Inspection Services, outlined the future of dairy exports during the recent annual meeting of the National Milk Producers Federation (NMPF) in Orlando, FL.

"Moreover," he said, "prospects are dim for any sizable increase in our commercial export sales as long as our dairy programs are out of kilter with world supply and demand.

"I know a lot of people in the dairy industry believe the obvious answer to the surplus problem in the United States is to increase exports. Farmers are always more comfortable when there are no huge stocks hanging over the market. The Government is also more comfortable when it is not paying huge sums of money for storage and interest on these inventories," he said.

But the dairy industry, he said, must recognize U.S. surplus stocks of nonfat dry milk and cheese are now so large they completely dwarf the potential of the export market to absorb them. For example, by the end of 1985, U.S. stocks of nonfat dry milk would be larger than 1 year's total world trade of that product. Stocks for cheese would be more than half a year's total exports.

"It would take us years to export the surpluses existing at the present moment—assuming our prices were such that we could participate in the export market, or that we were to heavily subsidize those sales."

As of late November 1985, Tracy pointed out, U.S. market prices for butter topped world market prices by $2,045 a ton. For cheese, the difference was $1,460 a ton and for nonfat dry milk, $1,150 a ton.

Alan Tracy, USDA's Deputy Assistant Secretary for Marketing and Inspection Services.

"With price differentials of that magnitude, the United States is hard pressed to export dairy products on a commercial basis. Nevertheless, the Commodity Credit Corporation (CCC) has increased its efforts over the past year to move more of the surplus dairy stocks into commercial export markets," he said.

Tracy said over the past year, CCC has sold for export 301 million pounds of dairy products valued at $102 million. These sales were subsidized and made at competitive market prices, mainly to challenge unfair trade practices of subsidizing countries. He listed a number of the sales and said there are several other proposals now under consideration that could result in additional sales of substantial quantities of dairy products.

Pursuing Every Avenue

"We are pursuing every avenue open to us consistent with our obligations under the General Agreement on Tariffs and Trade (GATT) and our bilateral agreements, to move these surplus stocks into the export market on a commercial basis," he said. "We are also carrying out an aggressive program of donations to the needy abroad. In fiscal 1985, we signed agreements...to move 147,000 tons of dairy products."

He said there were many reasons why the Government has not made more use of export subsidies, although many would like to see it happen.

"Subsidies cost money and we don't want to add to the Federal budget. Getting our financial house in order—which will put our dollar more in line with the currencies of other nations—will do more for agricultural exports across the board than anything that can be financed by the taxpayers in the form of subsidies," he said.

"Furthermore, there is something about export subsidies that gets under the skin of U.S. consumers. They don't see why we should sell butter to foreign customers at less than half of what they themselves would have to pay in the supermarket."

Bonus to U.S. Exporters

He noted the Administration did announce an export enhancement program last spring, which he called "a subsidy program of sorts." That program offered $2 billion worth of Government-owned

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Farmland Anticipates New President by April

A new president for Farmland Industries, Inc., Kansas City, Mo., to succeed Kenneth Nielsen could be named at the April meeting of the cooperative's board of directors, Chairman Fritz Gwinn indicated during the cooperative's recent annual meeting. Nielsen is the cooperative's fifth president. In response to a move from some members asking him to reconsider retirement plans, Nielsen felt it was more important to let the cooperative's retirement policy prevail. He will retire Aug. 31 after 35 years with Farmland.

commodities as a bonus to U.S. exporters to permit them to compete with subsidized prices offered by competitors.

"That's enough incentive to create substantial havoc in the current world market, except for one thing. The bonus will be offered only for designated commodities for specified markets selected by the USDA," he pointed out. "It was done that way because the program was developed in the context of the Administration's firm commitment to market-oriented international trade policies. The enhancement program represents an apparent departure from those policies, but it is temporary and it is restricted in scope.

"The ...program is a trade policy tool, designed to show other nations what their subsidies do to us every day," he asserted.

Tracy reminded delegates of a speech he made to them 4 years ago. "At that time, I stressed the need to reduce the dairy price support level so we could bring production into better balance with demand—and so we could compete in the international marketplace.

"We certainly haven't come close to achieving these goals in the intervening 4 years. I hope we can do better—we must do better—in the years ahead. And yes, I know it's not going to be easy."

He said the dairy industry has "chalked up some of the most astounding productivity increases of any sector of U.S. agriculture—so it certainly has plenty of skill and know-how.

"I hope the industry will apply its business know-how to solving its overproduction problems. Government export programs—no matter how aggressive—can't do the trick. It's up to the dairy industry itself to take a hard look at the realities of the world's dairy markets—and work to adjust prices and production accordingly."■

AIC to Repeat Awards for Research Papers

A cooperative research award program again is planned by American Institute of Cooperation in conjunction with its annual National Institute on Cooperative Education scheduled for next summer at the University of Tennessee-Knoxville. The program is intended to honor university graduate and undergraduate students for papers, theses, and dissertations on issues affecting the operations of American agricultural cooperatives.

Three awards are presented on the graduate level, one for the best doctorate and two for masters. Five awards are made for the best undergraduate term papers submitted. For further information, write AIC, 1800 Massachusetts Ave., NW, Suite 508, Washington, D.C. 20036. Entries must be postmarked by April 15, 1986.

Communicators Offer Grants to Denver Institute

Travel grants to finance attendance at its institute in Denver, June 15-18, again are being offered by Cooperative Communicators' Association (CCA) to college journalism/communication students. Application deadline is April 15. This is the 9th year the association of more than 300 professional communicators from the United States and Canada has offered the program. It permits students to interact with experienced communicators during an intensive 4-day institute. The program includes writing and photo competition, presentations by recognized authorities, plus workshops for beginning and advanced communicators.

The travel scholarships are funded jointly by CCA and the Mutual Service Fund of MSI Insurance. They cover all institute expenses. Applicants should be juniors, seniors, or graduate students in professional communication study programs. Applicants also should have some experience with or active interest in farmer or consumer cooperatives. For further details, contact: Donna Foster, Communications Assistant, Tennessee Farmers Cooperative, P.O. Box 3003, LaVergne, TN, 37086.

Colorado Dairyman Camerlo Heads NMPF

James (Tom) Camerlo, a Colorado dairy farmer, was elected president of the National Milk Producers Federation at its 69th annual meeting last December in Orlando, FL. Camerlo has been active in the dairy industry for some years. He is president of United Dairy Association in Chicago, and president of Mountain Empire Dairymen's Association at Thorton, CO, Western Dairymen's Cooperative at Midvale, UT, and the Dairy Promotion Federation Association. He also is on the agricultural advisory committee of Colorado State University and Colorado Agricultural Development Committee.

Camerlo replaces Norman Barker, Pratt, KS, who headed the Nation's oldest commodity organization for the past 5 years. Barker is secretary of Associated Milk Producers Inc., and secretary of its southern region. Elected first vice president was Herbert Selbrede of Wisconsin Dairies Cooperative and second vice president Elwood Kirkpatrick of Michigan Milk Producers Association.

After Decade of Growth, Co-ops' Share in Purchasing, Marketing Stabilizes in 80s

After a decade of growth through the 1970s, cooperatives' share of farmers' purchasing dipped in the early 1980s, but then showed signs of recovery after the end of the Federal Payment-in-Kind (PIK) program. Cooperatives' share of marketing activities grew in the 1970s but has remained stable in the 1980s.

Fig. 1 shows shares of marketing and farm supply purchasing for 1960, 1970, and the early 1980s. The eighties so far show no particular trend.

Shares of cooperative purchasing activity are measured at the farm level. Feed, seed, petroleum, fertilizer, and farm chemicals are included in these estimates. Cooperatives' share of each supply product declined between 1982 and 1983, and cooperatives' combined share of total farm expenditures dropped from 28 to 25 percent. In 1984, all products except farm chemicals were at least slightly higher (figure 2), and cooperatives' combined share of the major supplies increased to 27 percent.

In 1983, the PIK program covering feed grains, cotton, wheat, and rice was in operation. Participating farmers received, in exchange for their reduction in production, certificates that could be sold or exchanged for the commodity. Under this program, farmers reduced their acres of production and correspondingly production supply purchases. Total expenditures for supplies by U.S. producers were down sharply in 1983, but then increased in 1984 after PIK program ended.

Cooperatives tended to have a strong market position in the production areas most affected by the PIK program. Thus, the impact on cooperatives was magnified. For example, the West North Central States of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota, which accounted for 25 percent of total U.S. fertilizer expenditures, had 39 percent of total cooperative fertilizer sales in 1981. Cooperatives' fertilizer share in this area was roughly one and a half times as large as the cooperative share on a national basis.

Roger A. Wissman
ACS Agricultural Economist

Between 1981 and 1983, fertilizer sales in these States decreased 29 percent, while total U.S. fertilizer sales decreased only 19 percent. Conversely, in the South Atlantic States and on the West Coast, areas less affected by the PIK program, cooperatives had a smaller fertilizer share.

The drop in cooperatives' share of production supplies between 1982 and 1983 was caused, in part, by operation of the PIK program. The increase in the 1984 share of supply sales appears to be caused by the absence of the PIK program. Fertilizer had the largest drop in cooperative share, from 42 percent to 37 percent. Cooperatives' share of fertilizer increased slightly in 1984 to 38 percent. Cooperatives' shares of petroleum and seed followed the same pattern.

The estimates of cooperatives' share of supply products are obtained by comparing total cooperative supply sales, less amounts not used in agriculture production, to farmers' cash expenditures. Share estimates for 1982 and 1983 shown in fig. 2 have been adjusted based on revised farmers' cash expenditure totals. They replace the shares previously reported in *Farmer Cooperatives* magazine (Feb. 1985 and March 1984).

Largest Share in Milk

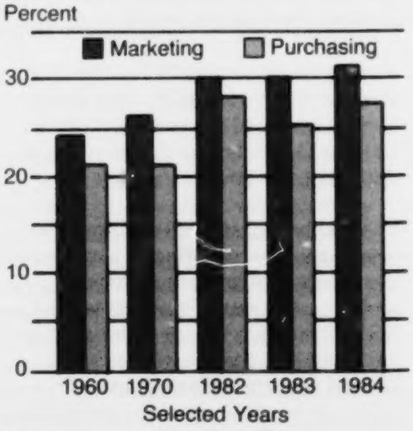
Cooperatives continue to have their largest marketing share in milk and smallest shares in livestock and poultry. A large beef operation of a cooperative (Land O'Lakes) was sold. That accounts for a major part of the decline in livestock share in 1984 (fig. 3).

Shares of both cotton and grain cooperatives increased from 1983 to 1984. The cotton and grain shares for 1984 reflect a special situation, the operation of the PIK program. Grain and cotton certificates received by farmers participating in the PIK program showed up mostly in 1984 marketings. The value of producers' PIK certificates was added to estimates of cash receipts from other marketings to obtain total value of cotton and grain marketed. Cooperative sales of each product are adjusted to an estimated value received by producers. Amount paid to producers by cooperatives divided by the value received by all producers of the product equals cooperatives' share.

Cooperatives' fiscal years end at various times during the year. Therefore, it is difficult to have an exact match of time periods between total marketings of a product and the amount marketed by cooperatives. The 1-year operation of the PIK program may have changed producers' or cooperatives' marketing patterns and made this comparison more difficult. The increases in cotton and grain should be viewed with this in mind.

Compared with others, cooperative grain elevators may have had more local storage in proportion to their grain

Figure 1—Cooperatives' Share of Marketing and Purchasing Activity



volume marketed. Operation of the PIK program may have allowed organizations with extra storage to increase their marketing share.

Cotton marketing cooperatives providing storage under government loan programs were well situated to participate in the marketing of PIK cotton certificates. Cooperatives probably gained additional marketing volume because of this.

Fastest Growing Segment

Fresh vegetables are the fastest growing segment of the fruit and vegetable market. Cooperatives have a weak position in fresh vegetables, but are stronger in processed vegetables and fruit. The processed fruit and vegetable industry, especially canned products, has had a difficult period with low prices and some declines in per-capita consumption. Processing cooperatives also have followed this pattern.

Fruit and vegetable cooperatives' shares for 1982 and 1983 were revised. These changes reflect a higher proportion of sales assigned to processing costs and less as payment to producers for products marketed.

The marketing shares are measured at the first-handler level. The number of marketing functions are not considered, only how much was handled by cooperatives at the first step in the marketing chain.

Information used in these share estimates are dollar values, not physical quantities. Therefore, changes in relative prices among products influence the combined shares of marketing and purchasing activity. Also, production shifts among areas due to weather or other reasons may cause product shares to change. Small changes in shares should not be over emphasized. Those estimated show cooperatives breadth of involvement with individual products, but do not measure the degree of that involvement.■

Figure 2—Cooperatives' Share of Purchasing Activity by Product

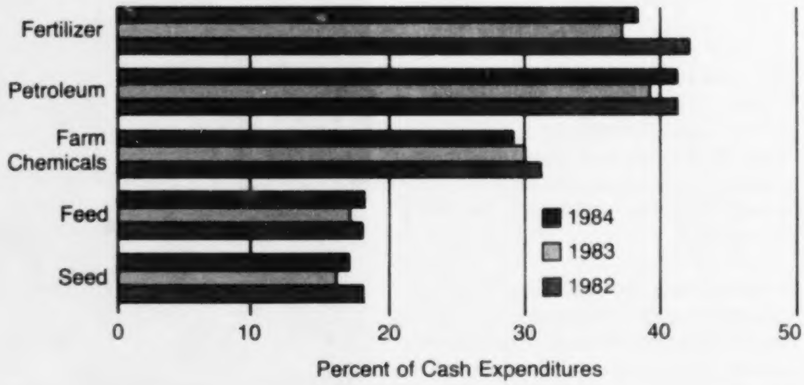
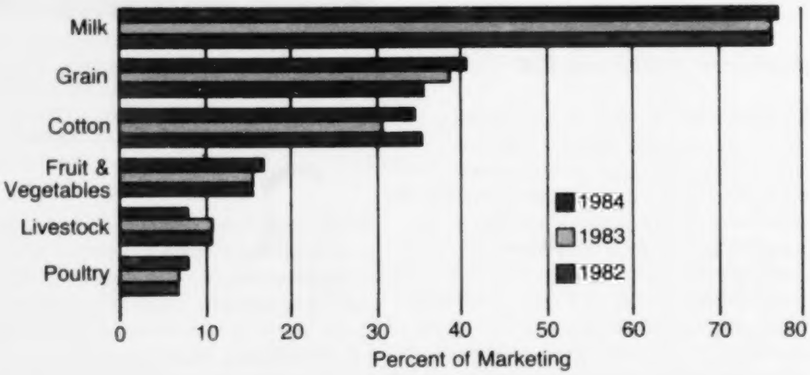


Figure 3—Cooperatives' Share of Marketing Activity by Product



LOL, Farmland Unity Talk Snags Outlined

Three major snags stand in the way of any immediate consolidation of Farmland Industries, Inc., Kansas City, Mo., and Land O'Lakes Inc. (LOL), of Minneapolis, Farmland President Kenneth Nielsen told members at his cooperative's annual meeting. A joint study committee has indicated service sharing could save the new cooperative $15 million. However, he said, several major snags still exist such as: investments in separate phosphate fertilizer resources, although a joint partner could be brought in to resolve the problem; Farmland's losses, which Nielsen felt could be earned back in a short time; and LOL's unknown obligation to the bankrupt Energy Cooperative, Inc. Although the problems are not insurmountable, Nielsen said "it will take more time to overcome them."

NCFC View of 1986 Focusing On Credit, Deficit, Trade, Tax

Editor's note: This article includes portions of reports prepared by Donald K. Hanes, James Webster, R. Thomas Van Arsdall, and Joseph Terrell. Other presentations will be covered in subsequent issues.

Farm credit, fair trade, the 1985 Farm Bill, and the general economic prospects for agriculture dominated presentations and discussions at the 57th annual meeting of the National Council of Farmer Cooperatives (NCFC), Jan. 21-23, in Miami.

Woven through the main topics was speculation on the consequences of the Gramm-Rudman-Hollings deficit reduction act and proposed tax law changes.

Nearly 800 persons, a smaller number than usual, attended the principal meeting and many of the numerous associated board meetings and special seminars.

MSI Insurance President Gordon Lundquist, left, presents a $10,000 grant from the MSI Foundation to David Thomas, president of the American Institute of Cooperation, to fund the first edition of the Journal of Agricultural Cooperation. The journal will be incorporated as a section of AIC's annual yearbook and devoted to research articles on cooperative issues. Jeffrey Royer and James Baarda, agricultural economists from Agricultural Cooperative Service, will edit the journal.

Staff View of 1985 and 1986

Chairman Ben F. Morgan said he felt NCFC had a major impact on the farm bill and was able to do so in harmony with other agricultural interests. He said every proposal for the new legislation was weighed against goals adopted by the delegates last year. Goals set for the farm program wanted it to provide support and protection for farm income, allow U.S. agriculture to be competitive, and be cost effective for Government.

Though the new bill "may not be the answer to all our problems, it does chart a new direction for farm programs many thought impossible a year ago," he said.

"By adjusting the programs in such a way to allow us to be competitive, we can reverse the position we got ourselves into when our competitors were undercutting the price and taking our markets," he added. Program adjustments are expected to be accomplished "without the corresponding sharp reduction in farm income that ordinarily would have been associated with such price competition. This was critically important, given the level of financial stress in the farm sector."

Turning to internal matters, Morgan said progress is continuing on achieving efficiencies associated with NCFC's three affiliated organizations. Concerning its newest affiliate, American Institute of Cooperation (AIC), Morgan welcomed new president David Thomas and noted "cooperative education is the cornerstone of the future for our cooperative system."

NCFC President Wayne A. Boutwell and his staff summarized legislative activity for the past year. Boutwell predicted that in the coming year the budget, the Gramm-Rudman-Hollings deficit reduction package, and tax law changes would dominate congressional debate.

While NCFC supports reducing the budget, Boutwell said "we must ensure agriculture isn't unfairly singled out when many farmers continue to be under great enconomic stress."

Tax changes, along with calls for increased tax revenues, probably will be considered as Congress weighs the impact of budget cuts, either from the Administration's budget or potentially dictated by the deficit reduction act, he said.

Deficit and Tax Legislation

Sen. Howell T. Heflin of Alabama said the deficit-reduction act could become a "farm assistance reduction bill." The

Gene Ingalsbe
Director of Information
and Education Staff

Bill Matteson of Farmland Industries, Inc., Kansas City, who chairs the National Council of Farmer Cooperatives' public relations committee, left, presents a 1985 National Co-op Month special "Lifetime Cooperator" award to Owen Hallberg, who retired last summer as president of the American Institute of Cooperation after devoting many years to advancing agricultural cooperatives. (Photos courtesy of National Council of Farmer Cooperatives)

next Secretary of Agriculture (Richard E. Lyng has since been nominated), Helfin said, will need to stand up for agriculture with a strong voice.

In addition to needing a dynamic secretary, Heflin said USDA needed to have a better coordinated policy in the interest of farmers with the State Department and the Agency for International Development. He urged more work on market research and sales promotion for agricultural products, greater research on reducing production costs, and "an expanded cooperative function designed to help save farmers' money."

The likelihood of tax law changes is strong because of the common elements in the various bills and the consensus on the need for reform, Rep. Hal Daub of Nebraska said at the legal, tax, and accounting committee meeting.

Regardless of which bill you look at, he said four common elements surface that call for reform—(1) lower marginal rates; (2) fairer distribution of the burden; (3) tougher minimum tax provisions to assure each citizen pays a fair share; and (4) a more market-oriented system designed to improve economic growth.

The need for reform, he said, is based on the consensus recognition of reducing the deficit, the number of taxpayers are declining under the present system, and this tax base will continue to erode as the country shifts more and more to a service and cash economy.

Farm Credit Situation

Legislation enacted to strengthen the Farm Credit System is "just the beginning" of the process to help farmers with debt problems, Sen. Jesse Helms of North Carolina said at the annual meeting of the Farm Credit Council.

The tough part and the real challenge is to "elevate again the effectiveness of the Farm Credit System as the largest single source of credit to American agriculture," he said.

Helms said the legislation will help farmers by reducing pressure forcing up farm loan interest rates, increasing the confidence of investors who supply capital to the system, stabilizing land prices, and allowing the system's lending association to restructure many troubled loans to "minimize foreclosures and liquidations."

Helms said the success of the legislation "will be largely measured by the ability of the system to provide reasonable forbearance to its borrowers who have a realistic chance to continue or resume profitable operations."

That the system is "owned and operated by its borrowers—not by the Government—needs to be emphasized over and over again," he said.

Part of the challenge, said Sen. Ed Zorinsky of Nebraska, is for Production Credit Associations and Federal Land Banks to be more competitive by reducing farm loan interest rates "1.5 to 2 percent." If the system can demonstrate to the Secretary of the Treasury it is using its own resources wisely to offset losses, he said, "the Administration will open the window (for financial assistance) that much sooner."

Speakers agreed, however, obtaining appropriations from Congress would be tougher than passing the assistance legislation.

"You are going to have to justify every dollar," said Rep. Ed Madigan of Illinois, because pressures to cut Federal spending will be strong for the next 2 years and "Congress will be cutting the heart out of other programs."

Zorinsky and Frank W. Naylor, Jr., under secretary of agriculture, urged the system to communicate fully with its member-owners. Communication was needed, they said, to dispel any impressions of ill feeling in the country toward the system and to build confidence among borrowers with the system.

The new role for the Farm Credit Administration (FCA), the Federal regulatory agency, will mean "greater independence for the system but greater responsibility," Naylor said. "It will mean a higher standard for you than what was perceived in the past."

FCA's role, he said, will be to "judge the safety and soundness of the institutions of the system" to protect borrowers and investors.

At a Farm Credit Update session, W. Malcolm Harding, president of Central Bank for Cooperatives, Denver, said so far through the farm credit crisis, "none of the 13 Banks for Cooperatives (BCs) is in serious financial difficulty."

"Banks for Cooperatives generally reflect the condition of their customers," he said. "Cooperatives were the first to feel the impact of the downturn in the agricultural economy and made adjustments in their balance sheets and operations early. Thus, the BC loan portfolio remains generally sound."

He said the BCs will show earnings of more than $70 million in 1985, but expected mergers and consolidations of cooperatives in 1986-87 project a "basically flat" loan volume.

Most, if not all, BCs are expected to have earnings in the coming year, Harding predicted. Nevertheless, both he and Ray Moss Tucker, retiring chairman of the Farm Credit Council, raised questions of whether alternative structures should be considered for the BC system.

"I think the time has come when the system needs to examine possibilities for efficiencies within the BC system," Tucker said. "Is there a better way to meet the financing needs of cooperatives? Should there be one BC? Could a single bank better manage the potential risk of loans in the district BCs?"

Tucker said the immediate principal challenges are that the system must "be competitive with its interest rates, operate in a more businesslike manner, and rebuild or strengthen its credibility."

Explaining the value of new farm credit assistance legislation, Douglas D. Sims, president of the Farm Credit Banks of St. Louis, said it "reaffirms the Federal Government's commitment to the Farm Credit System as one of its sponsored agencies."

Sims listed four general functions of the new Farm Credit Capital Corporation (FCCC): (1) transfer capital within the system; (2) purchase, restructure, and sell nonaccrual loans, and acquire property; (3) assist financially troubled institutions, helping manage their loan portfolios; and (4) receive and administer Federal financial assistance.

FCCC will be governed by a five-member board, Sims explained. Three will be elected by the Farm Credit System and two by the Farm Credit Administration (FCA). If the U.S. treasury invests funds, then the board would be expanded to seven members. One would be added by the Secretary of Agriculture, and then the six would select the seventh member.

Under the legislation, FCA becomes an "arms-length regulator," said Sims. Federal Farm Credit Board and the position of governor will be replaced by a three-member board appointed by the President and confirmed by the Senate. One member of the board will be the chairman and chief executive officer of FCA.

Another new provision is establishment of a 15-member national commission on agricultural finance. This commission, Sims said, will "study methods to ensure that adequate credit will be available to rural America by all lenders."

Leaded Gasoline Study Required

Rep. Thomas J. Tauke of Iowa described the provision in the recently enacted farm legislation concerning leaded gasoline at a special seminar.

The provision: (1) prohibits the Environmental Protection Agency (EPA) from reducing lead content in gasoline below 0.1 grams per gallon until Jan. 1, 1988; (2) requires EPA and USDA to conduct a study of the need for lead in farm gasoline engines by Jan. 1, 1987; and (3) to report to the President and Congress whether EPA's regulations should be modified to meet the needs of agriculture.

"This study should tell whether farmers actually face serious problems as a result of lead phaseout, as well as how best to address such problems should they be shown to exist, without impeding EPA's health objectives, Tauke said.

Officer Changes

Russell L. Hanlin, president and chief executive officer of Sunkist Growers, Van Nuys, CA, and William A. Hiller, president and general manager of Agway Inc., Syracuse, NY, were elected NCFC vice chairmen, replacing Glenn E. Heitz and Frank R. Light, who left the board. Other NCFC officers were reelected.

Grant T. Lucas, almond and poultry producer from Ceres, CA, was elected chairman of the Farm Credit Council, succeeding Ray Moss Tucker. Hugh Dailey, director of the Farm Credit Banks of Baltimore, was named vice chairman. E. Charles Miehe, chairman of the St. Paul Farm Credit board, was named to the FCC executive committee.■

PEOPLE NEWS

Charles L. Farr...

director of dairy division of Wisconsin Federation of Cooperatives at Madison, since its inception 16 years ago, has retired. He was honored at the recent annual meeting. Farr devoted his professional career to the dairy industry and cooperative enterprise. He is an acknowledged expert within the dairy industry, both in Wisconsin and throughout the Nation. Under Farr's leadership, the division was deeply involved in organizing and supporting studies on industry problems; presenting common positions to State government agencies and the State legislature; working closely with the State Department of Agriculture, trade and consumer protection organizations, and other agencies at both State and national levels; providing statistical analysis and market and other technical information; conducting marketing conferences, producer informational meetings, and education and training seminars; and helping coordinate Wisconsin dairy cooperative relations with national cooperative organizations, University of Wisconsin-Extension, and other trade and agricultural groups. Farr will be serving as a consultant to the new Wisconsin Milk Marketing Board.

Jack Limon and Jimmie Dean...

whose combined service to the Farm Credit System numbers 53 years, recently retired from the Wichita Farm Credit District board. Dean had been a director since 1977 and chairman from 1979-83. Limon joined the board in 1980 and was chairman in 1984. Dean also is a director of the new Farm Credit Corporation of Ameirca and served as a director of the Central Banks for Cooperatives for 15 yesrs and 6 years on the Federal Farm Credit Board. Limon was a local PCA director for 17 years including 4 as chairman and was named 1984 man of the year in service to Oklahoma agriculture by *Progressive Farmer* magazine and Oklahoma's conservation cooperator for 1985.

Enos Helsey...

manager of public and agricultural relations for Agway Inc. at Syracuse, NY, retired Jan. 1 after 39 years' service with the cooperative. He and his wife will be relocating to Mt. Gretna, PA.

At Universal Cooperatives...

David Johnson, CENEX senior vice president for operations, has been elected chairman of the board of the St. Paul interregional cooperative distributor and manufacturer of farm and home products. Johnson has served on the Universal board since 1981. He succeeds Ross Gilfillan of GROWMARK, Inc.

Darrel O. Grabow ...

is the new president of AgraTech Seeds, Inc., a subsidiary of Gold Kist Inc. at Atlanta, GA. Grabow succeeds Tom O. Luehder who recently resigned. Grabow was coastal plains manager for a South Carolina seed firm before joining AgraTech. He was responsible for the company's seed operations in eight southeastern States. He began his business career as an accountant with Harvest States Cooperatives, then known as Farmers Union Grain Terminal Association.

John Clayton...

Orondo, WA, has been named to the Tree Top board of directors, according to Charles Peters, board chairman. Clayton will fill the position made vacant by the resignation of Harold Cozart, who is retiring after serving 2 years of his 3-year term. Clayton is vice president of the Blue Chelan board of directors and a director of Washington State Council of Farmer Cooperatives.

Ron Gollehon...

is the new executive vice president of Agricultural Cooperative Development International (ACDI), an affiliate of the National Council of Farmer Cooperatives, both in Washington, DC. He replaces Bartlett Harvey who recently retired after 10 1/2 years with ACDI. Gollehon had been heading ACDI's small farmer production project in Egypt since 1981. Gollehon formerly had been an assistant to the deputy governor for operations and finance of the Farm Credit Administration. Art Buffington, a former president of the Omaha Federal Land Bank, succeeds Gollehon in Egypt.

P. Dean Denhart...

vice president, sales, for Indiana Farm Bureau Cooperative Association, Inc., was named a trustee of American Institute of Cooperation after its board of trustees meeting in Miami in January. He replaces Jack Beck who retired from the Indiana cooperative last September.

At Ag Processing, Inc....

Urban Knobbe, manager of Farmers Cooperative Company, Farnhamville, IA, has been elected president and chairman of the board. Kenneth Nielsen, president of Farmland Industries, Inc., has been elected first vice president and first vice chairman, while Ralph Hofstad, Land O'Lakes president, was chosen second vice president and second vice chairman. Elected secretary/treasurer was Jim Higgs, manager of Farmers Co-op Elevator at Waukee, IA. AGP is owned by 226 cooperative associations in 10 Midwest States.

At 30th Conference, Bargainers Told To Seek New Roles, Broader Base

Editor's Note: This is the first of a series of articles covering aspects of the recent conference of bargaining cooperatives. Other articles will appear in subsequent issues of the magazine.

New challenges for bargaining cooperatives was the keynote topic and the thrust of the National Bargaining Conference of the National Committee of Cooperative Agricultural Bargaining and Marketing Associations, Jan. 17-18 in Miami, overshadowing brief reminiscing to mark the conference's 30th year.

In the closing informal session, Gerald D. Marcus, long-time legal counsel to bargaining cooperatives, shared his recollections of the first conference, Jan. 12-13, 1957, at the Edgewater Beach Hotel in Chicago.

First, he said, the hotel "was not at water's edge nor on a beach, and in fact no longer exists." The conference had been called by Joseph G. Knapp, administrator of Farmer Cooperative Service (now ACS). Bargaining associations had asked Knapp to hold such a conference to take stock of possibilities and problems involved in bargaining cooperative operations.

More than 60 persons attended, representing nearly all of the fruit and vegetable bargaining associations, along with personnel from USDA, State Farm Bureaus and land grant universities.

We weren't talking about OPEC, the strong dollar, declining exports, and merger mania," Marcus recalled. "We were talking about the role and function of bargaining cooperatives, with a lot of discussion about antitrust. We were very much concerned about the phenomenon of integration by processors. We talked about the need for legislation to improve the legal climate for bargaining cooperatives. Ralph Bunje stressed the need to do something about long-term open price contracts."

Speakers in addition to Marcus and Bunje at that first meeting included John C. Datt of the American Farm Bureau Federation, Raymond J. Mischler of USDA's Office of General Counsel, Sidney Hoos of the University of California, and E. G. Nourse who had been chairman of the President's Council of Economic Advisers and was a consultant to and a strong proponent of cooperatives.

Gene Ingalsbe
ACS Director
Information and
Education Staff

New Challenges

As the keynoter, Dr. Randall E. Torgerson, administrator of ACS, said the 30th conference was an opportunity to "review, reflect, and plan for new challenges facing bargaining cooperatives."

At earlier conferences, he had identified at least three concepts concerning producer organization roles and functions:

- Producers' multifunctional roles as landowners, investors, laborers, and managers have produced different organizational needs. These needs have resulted in professional associations—both single and multicommodity, and cooperative business organizations.
- From a comprehensive perspective, a combination of the horizontal and vertical organization of producers leads to the most influence over returns for productive efforts.
- Systems coordination determines how organizations relate, how solid producers stand as a group, and how successful they are in achieving system benefits.

"It is my firm observation," Torgerson said, "that too little time has been spent studying, understanding, and assisting the horizontal dimension of grower organizational activity. It is not a question of 'if' or 'when,' but rather 'how' to do it most effectively and through 'what' organizational framework."

Torgerson suggested four ways horizontal organization could be improved:

(1) Why not coordinate bargaining units over broader geographical territory, such as using one agent to negotiate for pear growers in California, Oregon, and Washington; or one agent representing potato growers in Idaho, Washington, and Oregon?

(2) Group closely related products, such as dried fruit, or tree fruit such as cling and freestone peaches—an example being the solid progress achieved by California Canning Peach Association.

(3) Coordinate several bargaining units from a central administrative unit, as is being done by Michigan Farm Bureau through Michigan Agricultural Cooperative Marketing Association.

(4) Follow the lead of dairy, raisin, wine grape, and tomato associations that have a sufficiently broad membership and buyer base that organizational presence and income stability is maintained.

It appears the conclusion we can draw from each of these cases, Torgerson said, is that "we need to be thinking in bigger terms and looking at broader horizons."

Possible New Roles

Bargaining and marketing cooperatives could develop a greater role in coordinating supply with demand, Torgerson said. With sufficient membership, cooperatives could exercise "macro coordination" designed to influence production decisions and thus influence the quantity of supplies. Mechanisms, he explained, included member agreements (contracts) between grower and cooperative including forward deliverable contracts, longer term contracts, and establishing terms of trade prior to making production decisions.

Moving in this direction would require cooperatives to shift from a reactive to proactive role. It means the cooperative role would extend to identifying buyer or consumer demands and changing preferences and causing changes in growers' production decisions, he said.

A needed role but a tough area to gain entry is in negotiating terms of piece-wage production contracts in integrated industries, Torgerson said. The economic clout of integrators has thus far stymied growers' willingness to "stand up and refuse contracts." Nevertheless, he described it as a new frontier for bargaining activity but one that likely requires "some form of legislation to provide a working environment for growers to negotiate piece-wage contracts."

Torgerson said bargaining cooperatives' legislative role would best be directed to establishing or improving State bargaining laws. He reminded the national Agricultural Fair Practices Act resulted only after momentum had developed from State activity.

Electronic information processing brought by the computer age and its impact on the bargaining process needs to be carefuly assessed, Torgerson said. Often, use of computer auctions does not permit the use of market power through horizontal organization of producers. But the advantages of the technology must be recognized and adapted. Collection, processing, and analysis of large volumes of economic data can be done quickly. "Bargaining associations must be just as competent in handling and using this information as the buyers of their products," he said.

"It is clear," Torgerson concluded, "farm bargaining must develop from organizational strength. Opportunities continue to be great for those who wish to commit themselves to institutional development of the bargaining process." ■

CENEX Buys Crude Oil Reserves, Production

CENEX, the St. Paul (MN) farm supply cooperative, has purchased more than 2 million barrels of crude oil reserves from Shell Oil Company in Wyoming, according to Noel Estenson, senior vice president for petroleum and finance. The purchase includes 59 producing wells.

Estenson said the purchase fits with the cooperative's ongoing exploration and production plans. Included are Shell's interest in four separate oil fields in the Powder River Basin near Gillette, WY. Purchase price for the producing properties was about $7.50 per barrel, far below the then spot market price of $26 (now about $20), said Joel Blake, petroleum division vice president. Estenson said security of supply was a major consideration in the acquisition. The additional supply boosts CENEX' oil and gas reserves to a company record of 14.3 million barrels, after record crude oil production in 1985.

Farm Income Crisis Needs Policymakers' Priority

Federal and State policymakers should give the farm income shortfall their highest priority, CENEX President Darrell Moseson told delegates attending the cooperative's 55th annual meeting in late January at Minneapolis.

"The impact of the farm income crisis affects the entire economy and is of critical importance to our cooperative system—from the member-owner to the local, regional, and interregional. There remains a very real need to take positive action to ensure farm income justifies the farmer's investment of capital and labor," he said.

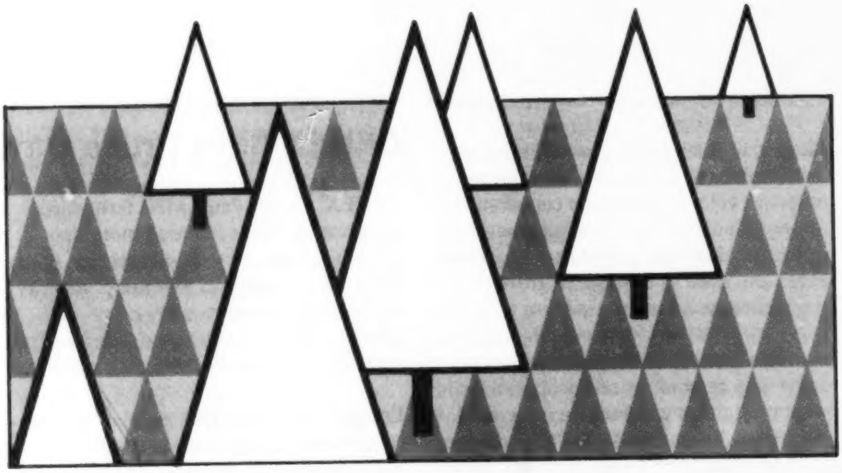
Moseson suggested taking Federal and State policymakers to the farm to promote a better understanding of the impact of the farm income shortfall. Farm income dropped nearly 30 percent in 1985, he pointed out, and economic analysts predict a further decline in 1986. "For many decisionmakers it is to easy to forget the foundation of the Nation lies outside of Washington, DC, and beyond the industrial centers of the East," he said. "They need to be reminded the Nation's economic base lies in rural America. I'd like to take the policymakers to the farm," he said, " not so they could tell the farmers what they are doing for them, but so American family farmers could show our policymakers what is being done to them."

Harkening back to 1931 when CENEX was formed, Chairman Joe Larson said prices at the time didn't pay farmers bills. "And as the Depresssion continued, prices dropped even lower." Foreign competition from New Zealand dairy products and Argentinian wheat was cutting into farmer's share of the world market. "Farmers responded by turning to cooperatives and cooperation," Larson said, "increasing their influence in the marketplace through volume purchases and sales." These same cooperatives also can help farmers meet the challenges of the 1980s, he said.

"Farmers can still count on their cooperatives as their most reliable partner in facing the challenge of tough economic times," he said. "They remain deeply committed to cooperative principles." Larson said the board placed highest priority on listening and responding to concerns of member-owners by seeking their input through resolutions approved at the annual meeting, wide ranging member surveys, and direct meetings with local cooperative directors and member-owners.

Maine Forestry Cooperative Develops Business Plan for Member Timberstands

Editor's Note: This story is about Forest Products Marketing and Management Cooperative, Dover-Foxcroft, ME. The cooperative was the model used in an earlier study on forestry cooperatives, conducted through an agreement between the University of Maine and USDA's Agricultural Cooperative Service.



The history of forestry cooperatives has been rocky and fraught with many failures, but for good reasons. Forestry cooperatives are inherently different in several respects from most other cooperative efforts.

Cooperatives are usually formed by a group of producers with a mutual problem in marketing and management. While this is also true of forestry groups, there are important differences. Although most woodland owners are interested in receiving income from their land, they also have other interests in holding and managing forest land—recreation, esthetics, hunting, firewood, or just for the sake of owning a piece of land.

Interest in timber income is often secondary. Sales of timber may even be impractical on many small tracts. As a result, woodlot owners may have less interest in selling the products of their land.

Another factor is the lack of pressure on most woodlot owners to sell a crop each year. Unlike fruits and vegetables, trees will not spoil if held over until next year, and holding may be wise if markets are poor. Further, most woodlot owners are not directly (consciously and physically) engaged in producing a salable product. As a result, there is less pressure to "cooperate."

The combination of small acreage and wide diversity of tree species and sizes common to most woodlots creates problems in finding enough of one product to market. While cooperative marketing is a way to solve this problem, small volumes spread over many acres may not be economical to harvest. As a result, wood is often sold for alternative products of lower value. Sometimes the owner is so discouraged by low prices he doesn't sell at all.

Intensive forest management is not common in many rural areas, so there may be few contractors offering services needed by woodlot owners, including harvesting. The environmental movement has made many owners more conscious of a conservation ethic, and the growing size of logging machinery makes cutting seem less attractive. Many owners simply will not sell their timber if they feel that logging will make an unsightly mess of their woodlands.

Differing Objectives, Pressure

As a result of these differing objectives and levels of pressure among forest owners, there is less cooperation in attaining a common goal. In addition, there are other factors, unique to forests, that create problems in cooperative business management.

Forest diversity is a major problem for both management and marketing. The large variations in number, species, size, and quality of trees on each acre of land, and the combinations of products that can be obtained are often staggering. One tree may be salable for veneer, sawlogs, pulpwood, or some specialty product. But there may not be enough trees to make up a truckload, or there may not be enough trees per acre to pay the harvesting costs. And after mentally comparing the value of the tree with the cost of fuel oil, the owner may decide it is more economical to burn the tree in his wood stove.

Diversity causes other problems. Unlike a warehouse, where each item for sale can be stored by size, shape, and color for easy inventory, the forest presents a real challenge to determine what is there. As warehouse inventory changes, records are kept up to date, but the forest is a living organism. The inventory constantly changes because of fire, insects, disease, death, and growth, factors not easy to measure and predict.

A major challenge is determining rate of tree growth — the key to what can be sold without depleting the forest. Woodlots are like savings accounts, with trees representing the capital and their growth as the interest return. Overcutting depletes capital and must be avoided in the long run, so growth must be determined if sound management is to be practiced.

Cooperative's Business Plan

Faced with the problem of identifying

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what they had, how fast it was growing, and how willing members were to manage and sell their timber, the Forest Products Marketing and Management Cooperative, Inc., Dover-Foxcroft, ME, set out to formulate a business plan. Going out and describing all the trees on 14,620 acres of forest belonging to 82 members was impossible physically and financially. Over a number of years of management, considerable information would be generated about the forest, but an immediate estimate of potential products and sales was essential.

Since complete enumeration of the forest resources was impractical, a representative portion was measured to estimate the nature and extent of salable products on members' lands and how fast they were growing. Two hundred and eighty-four sample plots were distributed throughout the ownership. Each was visited by a field crew. Trees were measured with a high degree of precision. A variety of facts were recorded about the forest's condition and productivity.

Recent aerial photographs were used to identify and map all property and timber-stand boundaries. These maps were then entered into a computer file. This file permits instant retrieval of a single owner or combination of owners, including all 82, if desired. To find the location of a specific product, the computer can print a map of all properties, shading those stands likely to contain the product. This greatly narrows the search for information.

Owner Intentions Surveyed

Even with a knowledge of how much wood there was, where it was, and how fast it was growing, one question remained unanswered. "How much would the owners sell?" Some would cut and some would not, and some of those who would cut wanted the products for their own use. To determine owner intentions, a questionnaire was sent to the members to see how much wood was available for sale. Based on their responses, the inventory was adjusted to reflect the amount of wood available for cooperative marketing. While this estimate is far from precise, it is adequate for initial marketing efforts. As more information becomes available from timber sales and silvicultural work on members' lands, a more precise estimate can be made.

Data collected in the inventory and survey were also used to estimate how much silvicultural work was needed and how much the owners were likely to perform. This information was the basis for estimating the number of worker-days of work needed on members' lands, a necessity for either attracting contractors or evaluating the need to establish a cooperative crew.

The process used to develop information for a business plan is described in the recent ACS Research Report No. 45. One of the benefits of this study was the experience gained in making the estimate.

Although the techniques are used conventionally in forestry, their application to a cooperative ownership distributed over 26 townships in Maine provided some unique challenges. A simpler, less intensive inventory would be equally satisfactory for a first approximation. This would be of major benefit to anyone else contemplating such a study, as would the "tricks" learned in the process of performing this type analysis for the first time. ■

NCBA to Focus on Co-ops in Times of Challenge, Change

Aspects of trade, impact of the economy on cooperatives, and future challenges will be the main focus of speakers addressing the 29th annual meeting of National Cooperative Business Association (formerly Cooperative League) in Washington, DC, April 28-30.

Theme of NCBA's meeting will be "Cooperatives: A Time of Challenge and Change." Featured will be Dr. Wayne Angell, Federal Reserve Board of Governors nominee; Ambassador Clayton Yuetter, U.S. trade representative; Dwayne Andreas, chairman of the board of Archer Daniels Midland; and Nancy Kantola, executive vice president of Kansas Cooperative Council. Angell will discuss the Federal Reserve System and the economy and their impact on cooperatives; Yuetter will look at restoring competitiveness for American exports during remarks at the Cooperative Business International luncheon April 29; Andreas will look at doing business in the U.S. and abroad and the need for cooperatives to change; and Kantola will examine challenges for cooperatives as viewed from the State level.

Workshops are planned April 29 and 30 on a variety of subjects—financial challenges facing cooperatives in 1980s and 1990s, building cooperative businesses in developing countries, promoting trade between the world's cooperatives, overseas joint ventures for cooperatives, agricultural cooperatives in the 1990s, and cooperative housing. Four cooperative leaders will be inducted into the Cooperative Hall of Fame during the dinner program April 29.

With an eye toward developing stronger ties, future trade opportunities, and information exchange, delegations from NCBA will visit the Soviet Union in June and People's Republic of China in September. The meetings will expand on formal agreements made with CENTROSOYUS, the Soviet cooperative federation, and the All China Federation of Supply and Marketing Cooperatives, after last fall's International Cooperative Alliance's Central Committee meeting in Washington, DC.

COOPERATIVE ACTION

Alto Shows Good Year; Gould Retires

At Alto Co-op Creamery's annual meeting at Markersan, WI, in December, President Courtland Sperger, Waupun, reported the board voted during the year to close the Westfield plant, place Astico on standby, renovate its old plant for Italian cheese, and hire Jack Prince to replace George Gould as executive vice president and general manager. Gould retired after 32 years' service, but continues as a consultant.

The co-op paid above-order quality and protein premiums and hauling subsidies totaling $3.1 million or 40 cents per hundredweight (cwt) on average test milk. Dividends and revolved equity paid totaled $1,048,000 or 53 percent of margins. The first year Gould came to Alto, the co-op handled 45 million pounds of milk, compared with 650 million pounds in 1985. Margins that first year were $11,411, compared with $1.9 million in 1985. The price paid for milk his first year was $3.25 per cwt. Total sales for fiscal 1985 were $97.5 million, down from $99.5 million in 1984. Margins were $1.9 million, versus $1.3 million in 1984. Long-term debt declined from $7.9 million in 1984 to $5.3 million in 1985. Alto handled 650.4 million pounds of milk in 1985, 520.6 million pounds of Grade A and 79.7 million Grade B. Most of the milk was used for producing cheese.

Sales, Margins Up for Welch Foods

Increases in sales and margins for fiscal 1985 were reported by Everett Baldwin, president and chief executive officer of Welch Foods, Inc., Westfield, NY. Record sales reached $274 million, up $38 million. The dollar sales increase exceeded the company's total sales in 1957. Net margins were up more than $2 million to exceed $35 million. It produced more than a 15-percent grower return on equity, higher than the company's 20-year average. About $10 million will be revolved in 1986 without a substantial increase in debt. During the year, it implemented changes producing more than $1.1 million in reduced costs. Looking ahead, Baldwin said he expected the new Welch's Orchard line of blended juices to significantly contribute to the company's future margins.

State Council Honors Cherry Growers

Agricultural Cooperative Council of Oregon always features one of the State's cooperatives during the annual meeting program. This year, it honored Oregon Cherry Growers, Inc. The presentation about the new cooperative was made by President and General Manager Robert Thompson. The organization is a consolidation of two long-time successful local coperatives, Dalles Cherry Growers and Willamette Cherry Growers in Salem. Despite the 150-mile distance separating the two cooperatives, consolidation offered major benefits.

Member Investment in CFC Peaks

The short-term member investment program at National Rural Utilities Cooperative Finance Corporation (CFC), Washington, DC, reached a milestone in September as rural electric systems kept an average balance of $800 million in CFC. The CFC cash management tool has been available for members since 1974. It allows systems to invest excess funds for periods of 3 to 270 days at market rates. CFC's total member loan funds invested through this program are returned to members as loans.

Riceland Sales Down Slightly, But Margins Up

Riceland Foods, Inc. of Stutgart, AR, and its affiliated grain drying cooperatives solidified their busness base principally by containing costs and reducing long-term debt during fiscal 1985, reports President Richard Bell. The cooperative showed a 45 percent gain during the year in margins and premiums from $16.7 million to $24.8 million. Riceland's sales were down slightly to nearly $543 million compared with $560 million in 1984. Net worth has increased in the past 5 years to a record $125.6 million, 80 percent of it in Riceland Foods. In spite of declining exports, sales to United Arab Emirates doubled, increased 30 percent to Saudia Arabia, and remained stable in Kuwait last year. Affiliated grain dryers handled 76.8 million bushels of grain and earn[illegible]6 million or 7.8 cents per bushel. The cooperative merchandised 35.8 million bushels and earned $2.1 million or 5.9 cents per bushel. The West Memphis, TN, terminal began operating with larger than expected receipts. Grain storage was added at the Pendleton export terminal on the Arkansas River. Corn and milo receipts strained the coooperative's storage facilities in 1985 and were expected to repeat in 1986.

New York DHI Finances Strengthened

Dean Moreau, representing Springfield (MA) Bank for Cooperatives, told members at the annual meeting of New York Dairy Herd Improvement Cooperative (DHIC) their cooperative was "back in a position as one of the strongest cooperatives we serve in the Northeast...We hope you will preserve this at all costs," he said. John Noble, DHIC vice-president said in view of improved finances and projections, the board recommended no fee increase Jan. 1, but delegates allowed them the flexibility to increase fees later to cope with changes in the dairy economy. Ron St. John, secretary-treasurer, reported margins of $370,000 based on $9.6 million sales for fiscal 1985. Sales were up $500,000 while expenses were cut $32,000. The cooperative's current assets-to-liabilities ratio is 2.2 to 1.0, compared with 0.8 to 1.0 in 1984. General Manager Nelvin Empert said the cooperative had improved quality and timing of service and educational programs for staff members and dairy farmers. The cooperative is working with several other DHICs in Northeast States to provide lab and field management services, leading to a merger in 3 years.

Tri/Valley Closes Stockton Processing Plant

An 11-acre processing plant in Stockton, CA, owned by Tri/Valley Growers, has been closed and offered for sale, reports Al Spina, executive vice president, operations. The cooperative had been operating the plant under lease for the past 3 years after the bankruptcy of California Canners and Growers (CCG), its previous owner. It was part of a package of three CCG plants obtained by Tri/Valley. A review of the Tri/Valley plant processing capabilities and locations indicated it had excess tomato processing capacity when compared with marketing requirements. Tri/Valley will continue to operate a 90,000-square-foot warehouse adjacent to the plant.

Canadian Grain Co-op Margins, Volume Down

Pre-tax margins for United Grain Growers (UGG), Alberta, Canada, fell 60 percent to $11.2 million (Canadian) in fiscal 1985 prompted by 20 percent lower grain volume. It left little room to contain costs, said President Lorne Hehn. UGG country elevators handled 3.9 million metric tons (mmt) of grain, down from 4.9 mmt in 1984. Terminal volume was down from 4.4 mmt to 3.3 mmt. Feed volume was up, but margins declined. UGG's 50 percent share of the loss by United Oilseeds Product, Inc., an oilseed processing business, was $2.4 million. Country elevator margins of $4.3 million were down 58 percent from 1984. Terminal elevator margins were down almost half to $5.2 million.

Sunkist Honored for Records Excellence

The ninth annual William Olsten award for excellence in records management was presented to Sunkist Growers, Inc., Sherman Oaks, CA, at the fall convention of the Association of Records Managers and Administrators in New York. Ken Heaps, Sunkist's manager of corporate records, and Ron Harrington, records system analyst, accepted the award. More than 60 companies competed. Sunkist was cited for office automation and distributed information applications, micrographics indexing and retrieval system, online operating budget reporting and inventory control system, standardized policies for computer output microfilm, and overall increased efficiency and productivity.

In other news from the cooperative, Sunkist has signed a 5-year contract to become the first business to sponsor a major post-season college football game and related festivities. The new name is Sunkist Fiesta Bowl. The agreement expanded the cooperative's longstanding sponsorship of the post-season football game begun in 1971. This is the fifth largest post-season college football bowl. Many of the cooperative's growers live in Arizona. Site of the bowl game is Tempe.

Sales Up, Margins Decline for Tree Top

Sales for Tree Top Inc., of Selah, WA., grew from $167 million to $182 million in fiscal 1985, but margins declined from $3.2 million to $1.3 million, President Dennis Colleran reported at the cooperative's 26th annual meeting. Higher interest rates, selling expenses, and administrative costs coupled with a highly competitive market kept margins down. He said the coperative is looking for other ways to market fruit products to improve members' return on investment. The cooperative is also looking for growth in the institutional foods market and industrial products, Chairman Charles Peters indicated. Meanwhile, the cooperative has introduced Grape-on-Tap, a five-liter container with dispenser filled with a blend of pure Concord grade, apple, and pear juices. It complements an apple juice product introduced in the same type of container last year.

Midwest Livestock Maintains Market Position

Midwest Livestock Producers Cooperative at Francis Creek continued its tradition of being the largest feeder pig marketing agency in the State and fourth in the Nation during fiscal 1985, reported General Manager Norbert Brandt. The cooperative, completing its 17th year, had sales of $104 million, volume of 772,000 head of livestock of which it sold nearly 513,000 at auction, and assumed private treaty operations, facilities, and routes of American Feeder Pig Cooperative, a competing marketing cooperative in the State. Midwest also hired 12 of the dissolving cooperative's employees. During the year, Midwest purchased and repaired the Iowa County Livestock Market at Dodgeville it had been leasing; inaugurated a new pseudorabies herd validation program to meet Illinois requirements; exported dairy cattle to China, Mexico, and Korea; conducted 24 tested hay auctions; participated in a new drug residue avoidance program; participated in the dairy diversion program by providing the forms, information, education, and recordkeeping; and joined with Equity Cooperative Livestock Association on a central sales office for slaughter hogs. Midwest is affiliated with Wisconsin Farm Bureau Federation.

Columbia Co-op Bank Directors Vote Patronage

Citing earnings considerably below recent year, the Columbia Bank for Cooperatives board of directors voted a patronage distribution to include 20 percent in cash, 55 percent in Class C stock, and 25 percent in allocated surplus. The board also decided to apply 10 percent of net margins from patronage-sourced income to unallocated surplus for fiscal 1986 ending Dec. 31.

Lake to Lake Sweeps Cheddar Class in U.S. Contest

Lake to Lake Dairy Division (of Land O'Lakes), Manitowoc, WI, has swept the cheddar cheese category at the third biennial U.S. Cheese Contest. Its cheddar cheese entries placed first, second, and third, with scores of 99.5 points, 99.0 points, and 98.25 points, respectively. Dennis Kempfert, Kiel assistant plant manager, submitted the winning entry; Bob Gebhart, Kiel personnel coordinator, the second-place entry; and John Kovach, Kiel special projects supervisor, the third. Lake to Lake also earned the runnerup U.S. champion cheesemaker title. Kempfert's entry scored 0.041 of one point below the champion. The contest drew 415 entries from cheesemakers in 17 States. More than 100 types of cheese in 12 categories were entered.

The cooperative's population line of dairy products will tease the taste buds of people attending the Wisconsin State Fair this summer. A Lake to Lake sales representative has won the contract. Similar statewide attention was given the cooperative recently when an Oshkosh restaurant received the first "Wisconsin Dairy Best Restaurant of the Year" award at the Wisconsin Milk Marketing Board's annual meeting. The winner was chosen from a field of 41 other county entries. The restaurant regularly uses and offers Lake to Lake dairy products.

Lake to Lake became a division of Land O'Lakes in 1981. It has consistently won quality cheese awards and was the first cooperative nationally to use the USDA's grading system with its Grade AA level.

Sales for CENEX Hold, But 1985 Margins Dive

Financial and operating officers of CENEX told delegates at the 55th annual meeting in late January the cooperative's sales held to about 1984 levels, but margins dove in comparison. The St. Paul-based cooperative reported fiscal 1985 sales of $1.38 billion, compared with $1.49 billion in 1984; margins of $426,000 versus $15.7 million; and patronage refunds of $400,000 versus $12.4 million. Farm conditions were mirrored in the cooperative's operations. Fertilizer prices were down about $11 per ton, feed down $40 per ton, and petroleum also soft. The declines meant lower prices for members at a time when they needed it most, officials said. The cooperative set aside $5.7 million for bad debt reserves and showed a $4.9 million loss on discontinued operations. Sales volume was stable despite general declines in the farm supply industry.

Among other financial highlights, CENEX maintained a 44 percent net worth ratio; retired $1.2 million in stock (and continued a 55-year tradition); made a major purchase of oil reserves; set an oil production record of 2.3 million barrels; boosted oil and gas reserves to a record 14.3 million barrels; showed sales increases of 2 percent in petroleum, 12 percent in plant food, 11 per cent in feed tonnage, 16 percent in seed, and 13 percent in propane; and distributed patronage refunds in petroleum, plant food, and transportation. Completion of the CENEX Santa Rita Pipeline connecting Canadian pipelines and southern Alberta oil producers with the Glacier pipelines helps refiners in areas of Montana including CENEX at Laurel. The connection is estimated to reduce CENEX oil transportation costs $4 million a year for the first 2 years and $9 million a year thereafter.

Dairylea Introduces Lactose Reduced Lowfat Milk

Dairylea Cooperative, Inc., Syracuse, NY., has introduced a new reduced lactose milk. The ultra-pasteurized lowfat milk also features added calcium. It contains 66 percent more calcium per cup than regular homogenized milk. The reduced lactose feature makes it easier to digest for people who are lactose intolerant. Ultra pasteurization give it a longer shelf life. The product is manufactured at the cooperative's plant in Oneida, NY.

In other news from the cooperative, it recently purchased the acid whey business of Dairy Research and Development Corp., a privately owned company working the Dairylea under a contractural arrangement for the past 17 years. The cooperative purchased the business, trademarks, and customer lists. The business fits in with Dairylea's industrial sales program of manufacturing and marketing products used as ingredients by various industries, particularly baking and confectionery.

UCO Margins $2 Million After Restructuring

United Cooperatives of Ontario (UCO) reported $2 million margins after restructuring $192 million of its financial base during fiscal 1985. Sales were almost $482.7 million. Gross margins improved 3.2 percent or $2.3 million, the first reported by UCO since 1980. Chief Executive Officer George May emphasized there would be no permanent improvement without significantly better sales trends and improved market share. Ron Wilson, chief financial officer, said the immediate goal was to wipe out fiscal 1985 general reserve debt of $36 million.

Fun Paying Dividends, Texas Co-op Manager Finds

"It's sure been fun paying out dividends to the members," General Manager Joe Artho, Hereford (TX) Grain Corp., said recently. Last year, the co-op's board of directors burned a 6-year-old mortgage worth $4.5 million. "We've been debt free ever since," Artho said. Since Feb. 1, 1985, the co-op has paid

$803,000 in cash dividends to members. In addition, the co-op has retired $664,000 in old stock. At its annual meeting this winter, it paid almost $700,000 in cash dividends to members. Margins for fiscal 1985 were $1.6 million based on sales of $19.9 million. The close proximity of 10 feedlots with more than 400,000 head of cattle and income from grain storage were credited for recent successes. About 60 percent of its wheat goes to Union Equity. The co-op has 705 members and 12 branches and operates in a 2,000-square-mile territory.

MFA Reports $14 Million Net Loss

A $14 million net loss for fiscal 1985 compared with $4.8 million in 1984 was reported by MFA, Inc., Columbia, MO. Of the total, $8.2 million was attributable to member business and the balance to nonpatronage source income. Part of the loss was in writedowns on interregional cooperative investments, namely Farmers Export Company and Cooperative Farm Chemicals Association. Sales for the year were $358.8 million compared with $477.4 million in 1984. Comparative supply sales were $205.5 million and $278.4 million and grain sales of $139.3 million and $182.4 million. Part of the grain decline was the sale of four terminals in 1984. MFA also continued to sell and close unprofitable facilities during 1985. The company gained $4.1 million after paying annuities or lump sum settlements in withdrawing from the employees retirement plan.

Harvest States Shows $25 Million Loss, $3 Billion Sales

A loss of $25 million for fiscal 1985 was reported by Harvest States Cooperatives, St. Paul, MN, during its annual meeting at Portland, OR, in November. The cooperative's operations stretch from the upper Midwest to the Pacific Coast. The loss was based on sales of $3 billion and a grain volume of 468 million bushels. Included in this year's loss were asset writedowns of more than $7.5 million resulting from ownership shares in cooperatives formed in the late 1960s and early 1970s. These cooperatives have been severely affected by the recent decline in exports, Harvest States said. Also included were writedowns within Harvest States' Great Plains supply division, reflecting the closing of 41 lumberyards during the year.

Member Loyalty Key to Alberta Pool's Future

Efforts to keep producer costs down and two successive droughts were reflected in the pool's fiscal 1985 margins reported by President A.J. Macpherson of the Alberta Wheat Pool, Calgary, ALTA, during the annual meeting. Margins were $9.3 million, down from $33.2 million in 1984. Macpherson said pool directors were concerned about Alberta's threatened agricultural industry. Analyses from several sources indicate farmers' capital structure and earnings performance have weakened considerably during the 1980s.

Sacramento Tomato Juice
Welch's
Donald Duck Orange Juice
Cranberry Juice Cocktail
Richland
Tree Top
Aunt Penny's hollandaise sauce
Lindsay
SIP-UPS
Sport
GOLD KIST
Sun-Maid Raisins
Lite Whip

Cooperative Food Sampler, a 9-year tradition at AIC's summer National Institute on Cooperative Education, contains processed food samples from cooperatives. Sixteen cooperatives participated this year. In addition, dairy cooperatives supplied cheese for meals during the institute. Many agricultural cooperatives have branded food products on the market. For a review of them, write Agricultural Cooperative Service, 3405 Auditors Building, Washington, DC 20250, and ask for a free copy of *Cooperative Brands of Processed Foods*, ACS Service Report 14.

At Tri/Valley Growers...

three new directors have been seated on the board for the California processing and marketing agricultural cooperative. They are Clifford Starn, Michael Machado, and Jaswant Bains. All will serve 3-year terms.

At United Cooperatives of Ontario...

thirty young adults ages 18 to 21 attended the 18th annual Young Leaders camps organized by United Co-operatives and Cooperative College of Canada. Participants were sponsored by either a cooperative or a credit union for the camps. On the agenda were leadership and communication skills, interpersonal skills, and cooperative/credit union history and business philosophy.

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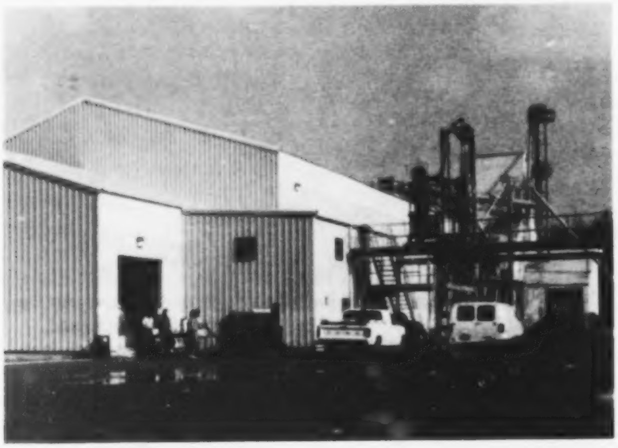

Peanut Sheller Cooperative Begins Operating in Virginia

More than 300 farmer-members and guests attended ribbon-cutting ceremonies and open house at the new Virginia-Carolina Peanut Farmers Cooperative Association's sheller plant at Franklin, VA.

The new plant resulted from efforts by Virginia farmers starting in spring 1982. They were faced with a twin threat of declining profits and potential loss of the Federal peanut program. The facility represents the latest in sheller technology and sits on a 12-acre cleared site within a 63-acre tract. The location gives the cooperative access to Norfolk Southern Railroad Company and major highway connections to East Coast shipping terminals.

The cooperative's new facility uses a horizontal design instead of the more traditional vertical system. The improved design reduces the number of "splits," enhances the product's market quality, and eventually should improve members' crop margins. The plant can handle 10 tons of peanuts per hour and store up to 3,500 tons. It was built at a cost of $2.4 million, $740,000 financed by 115 farmer-members and the balance through a bank loan.

Farmers created a steering committee to investigate formation of a cooperative to market their peanuts. USDA's Agricultural Cooperative Service (ACS) was asked to conduct a feasibility study. ACS surveyed peanut farmers in a four-county area to determine production characteristics and evaluate interest in forming a cooperative sheller. Survey results were presented to a committee in 1984 and used in formation of the cooperative and its new facility. ACS staffers involved in the project were James Goff, Mary Ann Lambert, and Gerald Ely, all of the cooperative development division.

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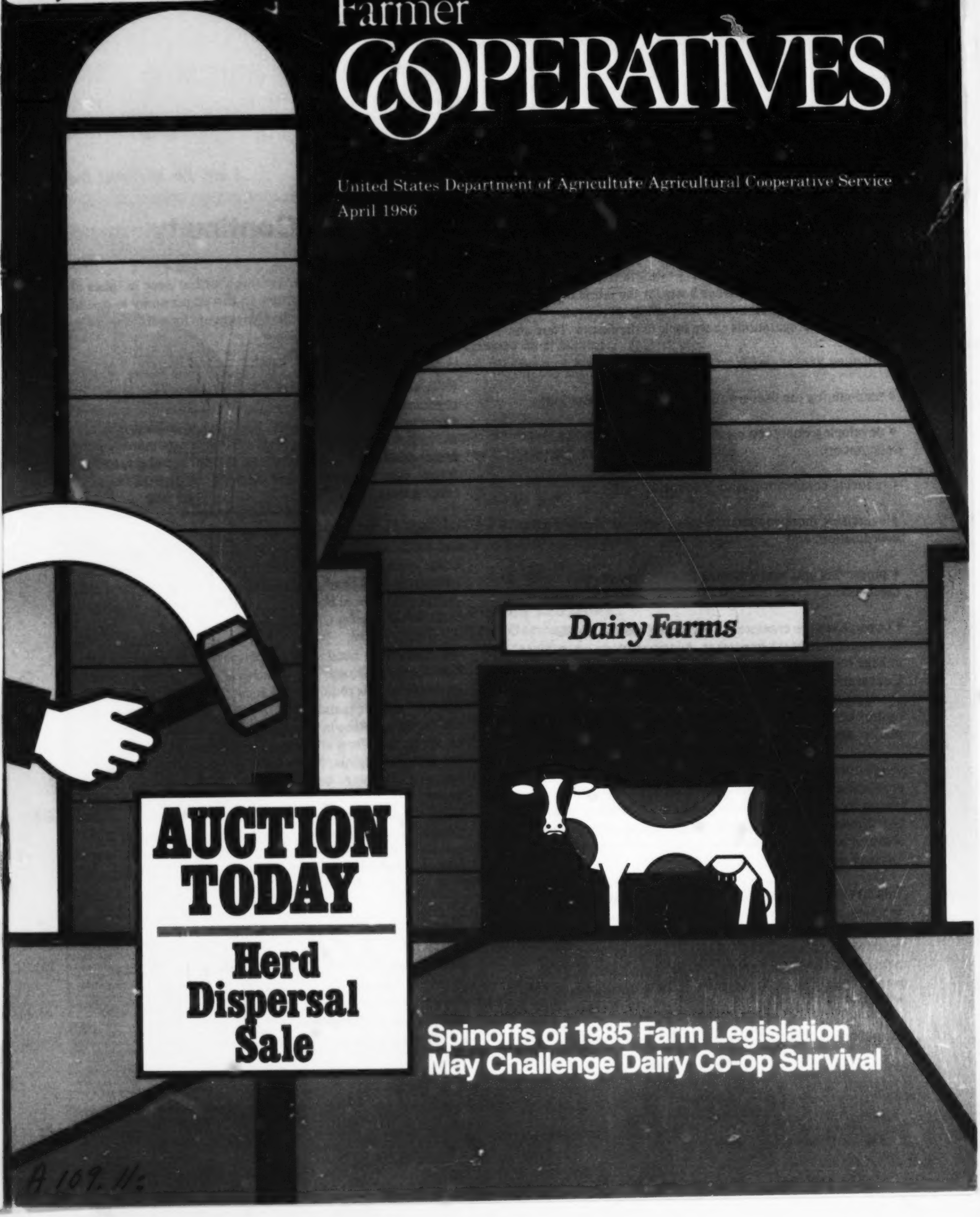
Farmer COOPERATIVES

United States Department of Agriculture/Agricultural Cooperative Service
April 1986


Dairy Farms
AUCTION TODAY
Herd Dispersal Sale

Spinoffs of 1985 Farm Legislation May Challenge Dairy Co-op Survival

A 109. 11:

Six Issues Facing Co-ops to Affect Future Continuity

Six issues face cooperatives worldwide and require their attention. Each of these issues bears on the fabric of cooperative organizations and their ability to provide continuity of preparations as we look to the future. They are:

- adapting to changing farm structure;
- maintaining the user-owned character of cooperation;
- developing improved methods of capital generation and redemption;
- reducing competition among cooperatives;
- exercising more cooperative statesmanship through more coordination; and
- preserving and strengthening institutional support mechanism.

Cooperatives are creatures of members' needs. Needs assessment is always important, but particularly when rapid change occurs in the makeup of production agriculture. Cooperatives' services must be constantly attuned to the changing needs of members. When members' wants and desires become more diverse, cooperatives must look at market segmentation.

Cooperatives are user-owned businesses. They rely predominately on member-generated businesses as their reason for being. The uniqueness of member governance, board/manager relations, and other features of voluntary organization gives cooperatives a fabric different from other forms of business.

This fabric is nourished constantly by education of members, directors, and employees so the purpose of cooperation—and hence the organization—is kept in clear focus. During time of financial stress, such as characterizes much of agriculture today, pressures exist to alter the user-owner character of cooperatives. The basic character of these organizations should be maintained.

Capitalization of farmer-owned systems can be difficult under the best of circumstances, but it is a critical issue in times of stress. The shift from an inflation-driven economy to one of deflation has required major adjustments for a number of businesses.

Capital formation became a key issue for the decade of the 1980s and remains so. Cooperative members have to be constantly reminded control follows capitalization. If they want to control their organizations, they have to capitalize them. At the same time, cooperatives are challenged to improve their methods of redeeming equities so current members, and not former patrons, spouses, and heirs are the persons financing cooperatives.

Excessive competition among cooperatives at both the local and regional levels is frequently misdirected and only serves to erode producers' equity in their organizations. Instead of just comparing performance results to other cooperatives, careful comparison should be given to returns generated by other firms in the market channel.

We continue to need a system perspective of the food and fiber market channel. The exercise of considerable cooperative statesmanship is required to achieve necessary coordination of efforts. Recent expanded use of joint cooperative ventures, marketing agencies-in-common, and continuation of interregional efforts are examples. Mergers of smaller regionals in Virginia, North Carolina, Michigan, and Ohio are further examples of needed structural adjustments to the times.

Cooperatives have served farmers well through nearly 2 centuries of change in this country. That performance is strong evidence they can handle the challenges of the future.

Randall Torgerson

Dr. Randall E. Torgerson
ACS Administrator

Farmer COOPERATIVES

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Tougher Trading, Doubled Food Assistance Could Help End 'Prairie Fire' Depression

Editor's Note: Coverage of NCFC's annual meeting was provided in part by Donald Hanes, James Webster, and Gene Ingalsbe and subsequently edited for use in Farmer Cooperatives magazine.

A tougher trade policy and substantial increase in the Food for Peace program can help "end the depression sweeping like a prairie fire across our agricultural heartland," the chief executive officer of one of the Nation's largest agricultural exporting companies recently told officials of farmer cooperatives from coast to coast during the annual meeting of the National Council of Farmer Cooperatives (NCFC) in Miami.

The United States Government must convince "merchantile governments" their policies of dumping surplus agricultural products in world markets at below-cost prices "are not in anyone's best interests," said Dwayne Andreas, chairman of Archer Daniels Midland Company from Decatur, IL.

Despite budget pressures, the Government should double the $2.5 billion now planned for the Food for Peace (P.L. 480) program for the next 5 years, he added, because it would save $4.5 billion in price support expenditures, mean expanded farm export markets, "and jobs for workers in processing, trucking, shipping, and related industries." That, in turn, would generate $330 million in new tax revenue.

Andreas called P.L. 480 "one of the best programs ever devised, both from a humanitarian and economic point of view. Hungry people are fed, reducing malnutrition and promoting political stability in developing nations. Sales of P.L. 480 food generate local currencies for reinvestment in local agriculture and aiding development. It increases markets for U.S. products in developing countries that grow faster than the rest of the world. So today's aid leads to tomorrow's sales," he stressed.

Some of these recommendations also are in the new Food Security Act of 1985 (Farm Bill), Andreas said. The bill "broadens the Secretary of Agriculture's ability to channel food to hungry nations. It requires a portion of P.L. 480 aid be made in cash to voluntary organizations and cooperatives. It also mandates a portion of the revenues from P.L. 480 sales be in local currencies for use as loans to cooperatives and other private sector financial institutions."

Use of Mixed Credits

The only way to negotiate free trade," Andreas said, "is to use the predators' own weapons against them."

Andreas charged the "merchantile economies" dominate the world trading system and are "pushing American farmers out of business (and) destroying Third World economies." He called for aggressive implementation of new export assistance authority contained in the farm bill and more use of "mixed credits" to help exporters.

One of the recommendations of the President's Task Force on International Private Enterprise, which Andreas chaired, is "mixed credits" used by many countries to combine easy credit terms and aid to foster their exports. While American producers and exporters can't compete by borrowing at commercial rates and financing their buyers at lower rates, he said, "the merchantiles do it every day because they are governments. They don't have to worry about profit and loss, about shareholders, or banks."

The requirement in the farm bill for $2 billion worth of government-owned surplus to be used to encourage exports, and a Reagan Administration request for $300 million for mixed credits, make "a good start," he said. "It sends a powerful message to unfair competitors that we aren't going to roll over and play dead. We're going to fight for our markets, and if the other fellow won't fight fair, then we'll just have to fight with his weapon."

An expanded Food for Peace program, he said, not only would be good business for U.S. farmers and industry, but also help the U.S. fulfill its "moral and charitable duty to the world's hungry." Improvements in the program mandated by the farm bill "may not go as far as the task force recommended," Andreas noted, "but it does put some muscle into our efforts on behalf of free enterprise worldwide."

While the U.S. should not try to introduce free trade unilaterally, he urged Washington to look at some of its own barriers to trade. He said Soviet Leader Mikhail Gorbachev recently told him the Soviets have "a long catalog of complaints about America's trade barriers and our reliability as a trading partner."

He said he is hopeful "some of these barriers will come down as we can start doing serious business with the Russians. They represent an enormous market for America's agricultural and industrial production."

GATT Needs Improvement

The "least known international organization in the world" may be criticized by U.S. agricultural leaders for failing to promote trade, but it has nearly 40 years of success in stimulating trade between countries, the group's deputy director general told NCFC delegates.

William B. Kelly, a former U.S. Government trade official, now holds the No. 2 job in the Geneva-based General Agreement on Tariffs and Trade (GATT).

"Over the past 35 years," Kelly explained, "there have been a series of multilateral trade negotiations (currently Tokyo Round) in which tariffs have been greatly reduced. Next year, when Tokyo Round tariff cuts are fully implemented," he said, U.S. tariffs on industrial products will average less than 5 percent, Euro-

Dwayne Andreas

William B. Kelly

Rep. Don Bonker

pean Economic Community (EEC) tariffs less then 5 percent, and Japanese less than 3 percent.

"These averages, however, hide some very protective tariff rates, particularly on processed products," he pointed out. "The rate structures of most countries increase at every stage of processing." So tariffs are important, particularly as they apply to processed agricultural products, he said.

Conceding GATT and other trade negotiations "have not benefitted agricultural trade to the same extent as trade in industrial products," Kelly noted, it nevertheless has allowed a tenfold increase in U.S. corn gluten feed exports to the EEC and an increase of nearly 25 times in soybeans and products to the EEC in the past 25 years. He said the GATT system was not the "cause of today's agricultural problems. GATT is not responsible for exchange rates, budget deficits, interest rates, inflated land values, trade embargoes, or domestic farm legislation," but rather "a reflection of what these governments have agreed—and in the case of agriculture there are major deficiencies.

Provisions Concern Restrictions

"Principal GATT provisions relating to agriculture concern restrictions on market access and subsidies," he explained. One of GATT's major tasks is implementing the subsidies and other codes. The texts are subject to wide and differing interpretations resulting from the negotiating process and need to have agreements ratified by domestic legislatures.

What Kelly called the "major deficiencies" in agricultural trade rules agreed to by the governments of major trading nations, are one of the principal reasons for U.S. advocacy of a new round of negotiations expected this fall. Kelly reported to the farmer cooperative leaders, many of whom are major agricultural exporters, the preparatory committee recently held its first formal meeting in Geneva to work on recommendations for negotiations leading to a meeting of trade ministers in September. Agricultural negotiations are likely to begin next year.

Code interpretation and implementation now underway in Geneva, he said, is a continuation of Tokyo Round talks. While implementation of most codes is proceeding satisfactorily, the subsidies code is being "severely tested by disputes between the U. S. and EEC involving wheat flour, pasta, and other agricultural products." He said the disputes involved "fundamental issues beyond the importance of trade in these products."

The Case of Pasta

The pasta panel, for instance, while not unanimous, found EEC export refunds illegal subsidies because pasta was a processed and not primary product. EEC argued it was entitled to subsidize the durum wheat contained in pasta (because the wheat was a primary product), provided the subsidy was no greater than the difference between the higher EEC and lower world market price of the wheat.

"EEC contended it was not subsidizing pasta but merely putting European pasta producers (who had to pay the high internal price for durum wheat) on the same competitive basis as non-European pasta producers (who could purchase durum wheat at the lower world market price).

This argument," Kelly explained, "has major implications for all processed pro-

NCFC Public Relations Committee chairman Bill Matteson of Farmland Industries, left, presented the Best in Cooperative Communications Award to Edward Breihan, board chairman, Farm Credit Banks of Texas, for the banks' annual meeting promotional materials entry in the 1986 Cooperative Information Fair.

ducts, both agricultural and industrial.

"Progress in the liberalization of agricultural trade in regarded as an essential element" if the new negotiations are to preserve the international trading system, Kelly said, but prospects for success are uncertain.

If domestic agricultural programs continue to be given priority over trade liberalization," he noted, "basic changes will be extremely difficult." However, in better times, ..."and a non-election year, significant results are possible, perhaps even probable."

Negotiating Trading Rules

Kelly described the work of the GATT Committee on Trade in Agriculture for the past 3 years in defining approaches to negotiation of rules for trading in farm products. The committee suggested two approaches for one of the most difficult issues—whether and under what circumstances countries would be permitted to continue subsidizing agricultural exports.

One, he said, would improve GATT's rules by achieving agreements on how existing provisions are interpreted. They are now subject to a wide difference in interpretation, so confrontations such as between the U.S. and EEC over wheat flour and pasta have arisen.

The other, perhaps more difficult to achieve, would "prohibit all export subsidies subject to carefully defined exceptions." While most countries are subject to political pressure to protect domestic agricultural producers, he suggested, they also worry about "the political acceptance by taxpayers of the increasingly huge economic burdens" of subsidizing agricultural exports. That has, at least, led to the recognition "the present situation cries out for improvement," he said,..."particularly in the area of export subsidies."

Restrictions Counterproductive

Despite growing recognition unilateral trade restrictions are counterproductive, the United States continues to apply them and to try and achieve foreign policy goals, Washington Rep. Don Bonker said.

Because trade restrictions failed to affect the Soviet Union when former President Jimmy Carter embargoed grain sales or when President Ronald Reagan tried to block supplies for a Soviet gas pipeline, he said, Congress has been trying to restrict the President's authority to impose them.

The 1985 Export Administration Act requires the U.S. to consult with Congress and other major trading nations before imposing economic sanctions, Bonker said. But President Reagan twice has ignored the need for consultations by citing his authority under other laws.

Bonker said European allies, who have declined to cooperate, were offended by the lack of consultation before the U.S. embargoed trade with Lybia. And the trade cutoff with Nicaragua, he said, affected U.S. farmers because 80 percent of U.S. sales to that country were agricultural.

Bonker predicted embargoes will not achieve their goals "unless other trading countries unanimously support the effort." The tragedy of past embargoes, he said, is the "victim is not the intended target. It is our own export industry." ■

Omaha District Losses Half Billion; Harling Sees More 'Suffering' Ahead

Further evidence of the financial depression in agriculture has shown up in the year-end report of the Omaha Farm Credit District, particularly Federal Land Bank (FLB), Federal Intermediate Credit Bank (FICB), and Bank for Cooperatives (BC). Omaha has been hardest hit of the 12 districts in the nationwide cooperative Farm Credit System (FCS).

John A. Harling, president and chief executive officer of the Omaha district banks, reported combined losses of the three banks were $509.6 million for 1985, compared with $28 million in 1984. But 1984 district losses were offset somewhat by BC margins. "Agriculture and the Omaha banks experienced a tough year in 1985," he said. "The suffering isn't over yet, but we are in a better position to respond to the adversity ahead."

On an individual bank basis, combined losses reached $385 million with the FLB/FLBAs, compared with $11 million in 1984; $123 million with the FICB/PCAs versus $17 million a year earlier; and $1.6 million for the BC because it assisted other districts and had some loan losses. In 1984, the BC had net margins of $13.7 million.

Cause for Optimism

"In spite of the bleak picture, ... there is reason to be optimistic about the future because of some positive factors that go beyond the banks' year-end financial figures," Harling said.

Here are some examples:

- FLB interest rates on variable rate loans were reduced to 12.75 percent.
- The cost of new funds for the banks continues to decrease. In time it may lead to lower interest rates, particularly in the FLB.
- Loss sharing agreements between banks in the FCS will assure they will support each other to the extent possible.
- Passage of the Farm Credit Amendment Act of 1985 assures borrowers FCS will continue to exist as a dependable and competitive source of credit. The legislation also provides stability for investors.
- Reorganizations in the banks and associations are improving their operating efficiency and effectiveness.
- PCA capital was stabilized by merging 37 associations into the single PCA of the Midlands assurring a financial assistance package would be put in place and PCA stock retirement would resume.

Combined Financial Statements

For the first time, the bank statements examined by an independent accounting firm included combined financial position and results of the FLB and 31 FLBA operations, plus the FICB and 37 PCAs.

The year-end combined FLB/FLBA statement showed a 1985 net loss of $385 million, compared with $11 million in 1984. An unprecedented $573 million was added to FLB allowances for loan account losses due to declining land values (up to 60 percent in some areas) securing FLB loans.

Losses for the year exceeded the combined FLB/FLBA reserves and available surplus, so loan sharing agreements with the other 11 district FLBs were activated. Omaha received $177 million in financial assistance from other FLBs at the end of 1985. FICB/PCAs net loss was $123 million, compared with a net loss of $17 million in 1984. The BC reported a $1.6 million net loss for 1985 due to financial assistance provided to other FCS banks and required allowances for loan losses. BC net margins were $13.7 million in 1984.

Loan Volume Declines

Net loan volume during 1985 declined significantly for all three district banks. FLB volume was $4.8 billion, compared with $6.2 billion for 1984; FICB/PCA $1.1 billion, compared with $6.2 billion in 1984; and BC $418 million, compared with $571 million in 1984.

Loan volume for all three banks declined because of a conservative and cautious approach to incurring debt by farmers and ranchers and their cooperatives; attrition in the number of farmers and ranchers; loss of business to other agricultural lenders; and efficiency measures by cooperatives including downsizing and mergers.

FLB had $136 million in loan chargeoffs during the year, compared with $16 million in 1984; FICB/PCAs were $179 million, compared with $80 million in 1984; BC chargeoffs on loan-related assets during 1985 were $4 million, compared with $2 million in 1984. Combined FLB/FLBA net worth was $279 million, compared with $724 million in 1984; FICB/PCA was $238 million in 1985 compared with $404 million; and the BC level dropped from $100 million to $97 million in 1985.

Omaha's FICB received $100 million in financial assistance from other FCS districts in 1985. FICB also received $13.2 million in direct financial assistance from the Omaha FLB and BC to help the district PCAs.

Farm Credit System Capital Corporation (FCSC) agreed to purchase up to $240 million in PCA high-risk assets and acquired properties early in 1986. About 1,140 PCA loans and 90 acquired properties with a total value of about $140 million were subsequently transferred to FCSC. The total was substantially lower than originally authorized because of continued loan servicing actions. Good crops in many areas allowed farmers to meet commitments. ■

Severe Economic Strain Means Decision Time for Cooperatives

Editor's Note: This article was derived from the author's comments at the annual meeting of the North Dakota Association of Cooperatives at Fargo in February.

Producers and their cooperatives are facing some of the harshest economic strains in memory. During the past 2 years, a wide range of possible causes and effects have been discussed at length.

The conditions both producers and their cooperatives face are unlikely to disappear soon. There won't be any quick or easy fixes, but rather a lot of hard work and difficult decisions by cooperatives, members, directors, and managers in weathering the storm.

In the heat of discussions, the blame has been widely dispersed, ranging from foreign agricultural developments, strength of the dollar, and national deficit, to the Administration, Congress, bankers, land grant universities, and even the farmers themselves.

There are many factors to think about in both trying to shape and plan for the future. But here are some primary ones to consider:

Learn to live without the export market—For the next several years the export market for U.S. farm products will continue to decline or stabilize at a lower level than has existed in the recent past.

All the weakening of the dollar, foreign sales promotion, export PIK programs, or foreign sales junkets won't greatly alter the situation. While there is no single answer, the situation implies continued low prices, stable input sales, continued pressure on input prices, and a difficult cash flow situation. Take these things into account in your long-range planning efforts.

Jack H. Armstrong
ACS Deputy Administrator

Deal with excess capacity in agriculture—The question is how do we deal with the excess capacity problem? No realistic number of farmers and bankers going bankrupt in rural America is going to solve the problem of excess production capacity that has existed since the end of World War II. With the rest of the world's help, we have the capacity to oversupply all of the world's economically based markets. We even have the food supply to provide almost limitless quantities to the starving areas of the world. Although this is a more desirable problem than a shortage of food, it still doesn't deal with the problem. Only a few food products are in surplus.

Carryover stocks of wheat at the end of the marketing year, May 31, 1986, for instance, are projected at 1.8 billion bushels. This represents a 10.5-month supply at the current rate of use. Worse yet, U.S. agricultural producers may be losing their export market comparative advantage in production of many major feed and food grain crops to several other major producing areas of the world.

Do we continue with plans, programs, and policies that don't recognize this new world situation until its too late? Our tax policies encourage over investment in agriculture. Farm programs stimulate production and accumulation of excess supplies at tremendous storage costs to taxpayers and directly cost farmers through lower prices. We espouse free world trade in agricultural products and maintain we are correct and rest of the world is wrong. But does anyone else believe it and do we practice it ourselves?

Impacts of Government Programs and Policies on Cooperatives—The main way various governmental programs affect cooperatives is their influence on farmer decisions and farming operations. Sometimes the impact can vary greatly between different types of cooperatives.

For example, the payment-in-kind (PIK) program benefited marketing cooperatives and their grower members. It moved Government stored grain into the marketing channels, 548 million bushels of wheat alone. Cooperatives earned handling fees. Grain producer income was bolstered. Wheat farmers received $1.94 billion in PIK benefits.

Conversely, the PIK program was a disaster for supply cooperatives. With more than 75 percent of growers participating, record wheat acreage went into conservation uses. This massive reduction in planted acreage sharply reduced sales of seed, fertilizer, and petroleum products. The regional impact on cooperatives was magnified because they had strong market positions in the production areas most affected by the PIK program.

The seven States of the West North Central region, including North Dakota, account for 25 percent of total U.S. fertilizer expenditures. They have 39 percent of total cooperative fertilizer sales. Between 1981 and 1983, fertilizer sales in these States decreased 29 percent, while total U.S. sales decreased only 19 percent. Sales rebounded once PIK was terminated.

Impact of Farm Bill

The Food Security Act of 1985 (farm bill) also will have an impact throughout the cooperative system. Coupled with sharp reductions in the loan rates, participating producers must trim planted acres. In addition, the conservation provision of the bill will further reduce planted acres. This concerted drive to reduce production will limit volumes for both marketing and supply cooperatives.

Policy initiatives in Farm Credit System relief and Federal taxation have been more favorable for cooperatives. In only 3 months, a mere moment by Washington standards, Congress passed and the President signed legislation providing backup financial support for the Farm Credit System. The new law authorizes the Secretary of the Treasury to purchase any amount of System obligations as he determines necessary and Congress approves through the appropriations process.

Netting Issue in Congress

Passage of legislation is expected soon to settle an issue between cooperatives and the Internal Revenue Service (IRS) over combining financial results from different allocation units, called "netting," for Federal tax purposes.

It is a clear expression of Congressional support for cooperatives and confirms they have the right to net since Subchapter T was enacted in 1962. It also helps financially healthy cooperatives absorb associations in weak financial positions by permitting the acquiring association to net the losses of the association it takes over as if they were losses of the surviving cooperative.

Given the situation, both members and their cooperatives need to consider some immediate actions and more long range plans. Cooperatives must adapt to the changes in agriculture and be in a position to grow and prosper when circumstances permit.

Here are some immediate strategies to follow to become economically lean and strong:

- seriously consider consolidation,
- adopt a survival strategy, and
- look at what successful cooperatives are doing.

The need for consolidation has never been greater. Farmers can't afford cooperatives competing with excess facilities, overlapping trade territories, and duplicate services. Many consolidations and mergers are last-resort actions by cooperatives trying to salvage something after it's too late.

Timely consolidations can provide an orderly removal of assets, investments, and employees. It sometimes permits you to do the same with less facilites and personnel. Don't wait until it's too late. Do the necessary long-range planning now to bring about complementary mergers while it is still possible.

This is one of the biggest and most difficult responsibilities facing boards of directors of presently successful operating cooperatives. To do this type of analysis is truly long-range planning. A cooperative board of directors not seriously considering or exploring some merger or consolidation continually is not fully doing its job.

Survival Strategy

These are survival times in agriculture. Many producers and cooperatives won't be around to begin the decade of the 1990s, less than 4 short years away. Begin developing a lot of contingency preparedness plans.

For example, determine in advance what to do when a member goes bankrupt owing the cooperative a large amount of money or how to handle a bankruptcy or delinquent account of a customer or distributor in a marketing cooperative.

Learn the precise status of the cooperative with your banker. Bankers are increasingly calling many of the shots. Some cooperatives have been surprised by actions taken by their lenders. It's better to find out how you stand now, than to find out too late to do anything about it. A survival strategy may mean delaying or foregoing additional expansion or introducing new services. This strategy, however, doesn't mean delays in adopting new operating or data handling technology to further reduce cost and increase efficiency. It means flexibility in responding to future developments while protecting the cooperative's financial integrity.■

Union Equity's Allen Looks to Co-op's Roots in 60th Year

Interest in how the acquisition of Far-Mar-Co has worked and what Union Equity's position is now was a prime topic at nine district meetings conducted this winter in the Oklahoma grain marketing cooperative's trade territory. General Manager Bill Allen said the meetings had special signifigance this year. Sixty years ago, in 1926, E.N. Puckett came to Enid, OK, from the Texas panhandle to launch what was to become today's Union Equity Cooperative Exchange.

"Sixty years ago, the fledgling cooperative faced a new, uncertain future," Allen said. "This year, the cooperative finds itself in a similar, if not identical, position. Six decades of successful operation and growth have helped remove many of the unknowns the new Union Equity of 1926 faced. Yet, with our recent dramatic growth, we again have a 'new' Union Equity whose future can be no more accurately foretold than it could 60 years ago.

"One thing is certain, though. The future of this cooperative, like any other, is in the hands of its members.... District, informational, and annual meetings are a vital part of our organizational experience, especially now, as we embark on a new era of our history," Allen said.

And like other cooperatives, he said, "Union Equity needs its members, their input, understanding, and support. With those ingredients, Union Equity has come a long way in 60 years. The future will be shaped in identical fashion," Allen said.

COOPERATIVE ACTION

Farming 'Way of Life' to Young CENEX Writers

While life may be changing rapidly on the farm, young people still view agriculture as a way of life, rather than just a way to make a living. That theme came through clearly in many of the more than 200 essays entered in the 1985 student essay contest sponsored by CENEX of St. Paul. Participants from intermediate and secondary schools, vocational-technical schools, and universities were asked to give their views on the future of agriculture. "They saw an increasingly complex agriculture—one in which education and the ability to adapt to new techniques and technology will be critical," commented David Karpinski, corporate communications manager. "However, they all saw a need to retain the important values of family, self reliance, and cooperation as vital to building a meaningful life on the farm."

COBA Offers Mobile Mating Service

COBA/Select Sires, Inc., Columbus, OH, artificial insemination cooperative, has introduced a mobile on-farm mating service, believed to be the first in the industry. Using a mini-computer and hand-held data collector, dairymen are assisted in making the best possible matings in their herds. The vans were developed through COBA's marketing department and contain all the electronic equipment needed to make computerized on-farm sire recommendations. Specialists record information on each cow in the herd and the dairyman's goals for his breeding program into the data collector. The information is transmitted into the computer and processed. A printout provides two suggested matings for each cow. The system is accurate and efficient, yet maintains a personalized consultant-dairyman relationship. The cooperative operates in an eight-State area of Ohio, Pennsylvania, Indiana, West Virginia, Texas, Oklahoma, New Mexico, and Arizona.

Sales, Margins Up for MFA Oil

MFA Oil Company, Columbia, MO, reports sales of petroleum products, agricultural chemicals, and tires totaled $193 million for fiscal 1985, an increase of $10 million from 1984. The company's net margins amounted to $5 million, according to President Dale Creach.

Sire Power Reports Record Margins

Upbeat progress reports and record margins for fiscal 1985 highlighted the third annual meeting of Sire Power, Inc., Tunkhannock, PA. Sales, margins, and patronage refunds were all up significantly. President Gary Rickard noted "Sire Power ended the year with the largest net margin to date, more than double the preceding year. General Manager DuWayne A. Kutz, said it was one of the more significant growth periods since Sire Power's formation in 1969. Gross dollar sales totaled $11.1 million or a 19 percent increase from 1984. Unit sales also set a record at 1,285,699, up 16 percent compared with the less than a 4 percent industry average. Major semen sales increases were in the national market, member-direct sales, and Latin and South America. Working with artificial insemination companies, NOBA of Ohio and KABSU of Kansas, in a semen exchange and marketing agreement known as Allied Genes has boosted Sire Power sales since July 1985.

The cooperative has a current asset to liability ratio of 3.5 to 1. Accounts receivable as a ratio of sales improved almost 20 percent. Sire Power is committed to the revolving fund principle of cooperative financing, Rickard assurred. The board allocated $886,000 to patronage refunds, 50 percent paid in cash. Patronage allocated since 1976 has been more than $6 million, half in cash.

GROWMARK Introduces 'Spirit' Publication

A 43-year-old communication tradition has been set aside in favor of a new approach by GROWMARK Inc., at Bloomington,IL. The cooperative's long-term *Pacemaker* magazine has been retired in favor of a new *Spirit* tabloid newspaper. The first issue featured an interview with T. L. Davis, retired director of the cooperative's communication area for nearly 20 years; stories about the cooperative's computer center; and a 6-county feed cooperative created by consolidating feed operations of five FS local cooperatives.

Candy Bar Features Blue Diamond Almonds

Almonds from Blue Diamond are a featured ingredient in a new candy product, the American debut of Nestle's special formulation of a confection Europeans have known for nearly 70 years as "white chocolate."

Welch Jellies Adapt to Space Travel

Welch Food's squeezable jellies had their first adventure in outer space last April when they were put aboard the Discovery space shuttle. The products were first pretested on earth by a company checking food products for use by NASA astronauts on the shuttle. It was almost impossible to get the jelly from the jar to the bread under simulated space conditions. Welch's squeezables were recommended after extensive testing for their adaptability to space as well as quality and flavor. In other news from Welch, a cranberry raspberry juice cocktail is the newest consumer product in its lineup of frozen cranberry concentrates.

Tri/Valley Quits Merced Operation

Peach processing operations at Tri/Valley Growers' plant at Merced, CA, will be discontinued for the 1986 season, according to Executive Vice President Al Spina. A study indicated the cooperative had sufficient fruit processing capacity at Stanislaus and Gridley (CA) to handle projected market requirements for cling peach and fruit mixes for the season. Large crops from the past two seasons plus imported foreign production are depressing California's fruit market.

The Merced plant was one of three purchased last year from California Canners and Growers (CCG). Tri/Valley had been leasing it since CCG's bankruptcy in 1982. About 550 people were employed at Merced during the peak season. Its annual payroll reached $2.3 million. Related on-site warehousing will be continued. Employees were offered open jobs at other Tri/Valley facilities.

Ocean Spray Expands in Texas

A $2 million warehouse is being added to Ocean Spray's Sulphur Springs (TX) manufacturing plant. The warehouse will provide additional storage pace for 400,000 cases. Construction is slated for completion in July. Employment will climb to 141. Under a recent co-packing agreement with Tree Top, Inc., Selah, WA, Ocean Spray production lines will be used to pack both Ocean Spray and Tree Top juices and juice drinks.

CBI Plans International Trade Expo

Cooperative Business International (CBI), Washington, DC, has announced plans for an international cooperative convention and exposition, dubbed CO-EXPO '86, for the Fairmont Hotel in San Francisco, July 30 through Aug. 1. The event will attract government leaders, international businessmen, and key leaders of cooperatives worldwide to exchange ideas and identify international trading partners. CBI has assembled a group of experts for sessions covering topics directly affecting the way international cooperatives conduct business. Government officials will highlight marketing practices and import and export policies in their respective countries. Each business leader will give cooperatives special tips about decisionmaking in international marketing. More than 100 displays of products and services are expected from Asia, Latin America, Africa, Europe, Middle East, and North America. A broad-based commercial sector will be represented, including agribusiness, grain marketing, food processing and packaging, trade representatives, petroleum products, furniture, industrial equipment, financial services, and many other goods and services. For further information, write Cooperative Business International; 1401 New York Ave. NW, Suite 1100; Washington, DC 20005. CBI is a corporation sponsored by National Cooperative Business Association to promote and facilitate business opportunities by and among cooperatives.

Gold Kist Awarded Export Contract

The first contract for the export of frozen poultry under the Government's bonus export plan has been awarded to Gold Kist Inc. of Atlanta. Commodity Credit Corporation (CCC) has accepted a bid for 8,000 tons of chicken leg quarters for export to Egypt by Gold Kist. The quarters sold for $558.50 per ton f.o.b. The bonus to be awarded by USDA in the form of corn and soybeans from CCC stocks was $345.46 per ton. Exports are scheduled for June.

LOL Reports $12 Million Margins

Land O'Lakes, Inc. (LOL) at Minneapolis, has reported pre-tax margins of $12.1 million for 1985, an increase of $1.1 million from 1985 margins. Consumer foods, turkey, feed, and energy divisions produced strong increases during the year. LOL sales totaled $2.3 billion, about the same as 1984. "The margins are the result of continued management efforts to control costs while maintaining sales levels with lower net assets," said Charles Fagin, LOL vice president and chief financial officer. Fagin indicated cash payments of $2 million were made to members in 1985 as patronage refunds and estate redemptions. Payments amounted to more than 50 percent of 1984 distributable margins. Patronage refunds, based on specific product categories, increased substantially from $4.1 million in 1984 to $7.6 million. During the past 10 years, LOL has returned nearly $100 million in cash to members.

Swiss Valley Volume Tops $206 Million

Record product volume and near-record sales have been reported by Swiss Valley Farms, Co. of Davenport, IA. Total milk volume increased almost 6 percent, even though revenues were down 2 percent due to lower prices. Total sales were $206.8 million with net margins of $2.4 million. Treasurer Charles Kessler reported net worth reached a record level of $22.6 million. "Because of direct fall bonus payments to member-owners of $800,000," reported Chief Executive Carl Zurborg.

Lake to Lake Markets Shredded Cheese

In an accommodation to consumers looking for products to make meal preparation easier, Lake to Lake Dairy Cooperative at Manitowoc, WI, has begun test marketing its world champion cheddar and mozzarella cheeses packaged in shredded form in Wisconsin.

Spinoffs of 1985 Farm Legislation May Challenge Dairy Co-op Survival

The 18-title Food Security Act of 1985 signed Dec. 23 by President Reagan dealt with the programs of all of the major agricultural commodities. The primary theme was one of making commodity programs more market-oriented.

Price reductions were used to make commodities more competitive, both domestically and in world markets. Loan rates were reduced, but target price maintenance will ease farmers through the transition.

Effective milk prices will fall, but dairy farmers may sell their dairy herds and discontinue dairy operations if they can't afford to continue producing milk at the new lower price-support levels.

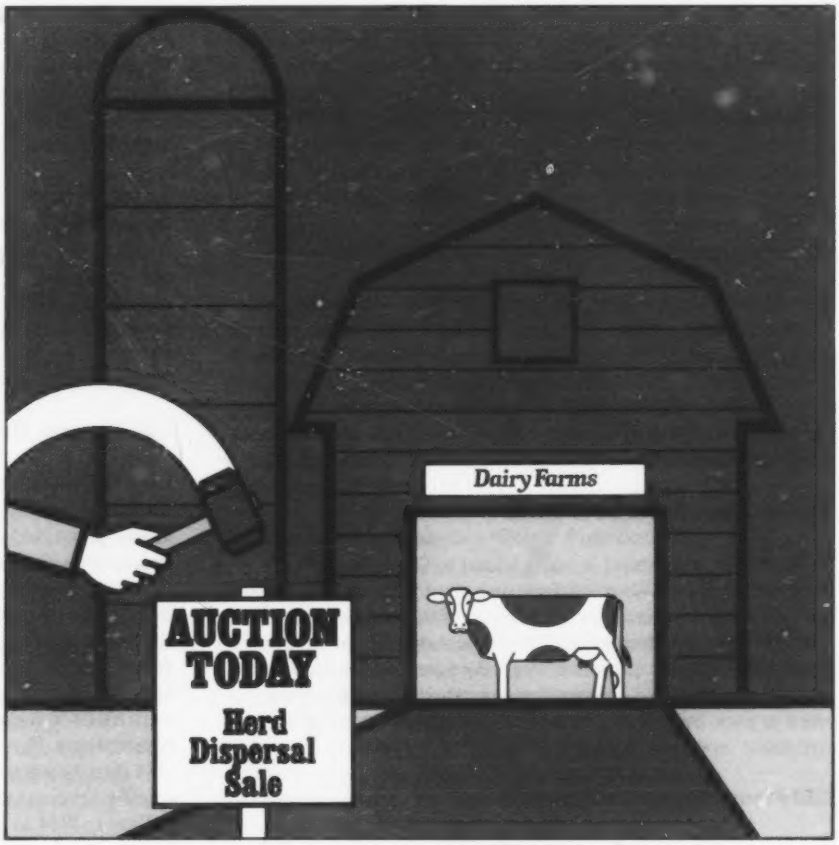
The new law has presented dairy cooperatives with a series of challenges. The inevitable reduction in milk supplies and prices will challenge some cooperatives' ability to remain viable and healthy forces in the marketplace. Others, such as the export enhancement program, will challenge cooperatives to be inventive and aggressive in the marketplace. Surviving cooperatives will be tuned to the needs of the marketplace and dairy farmers.

This new legislation will have far ranging significance to agriculture in general and specifically to the dairy industry including cooperatives. Major structural changes could occur as producer profiles change and these changes are felt up the marketing chain.

The timing and magnitude of such changes are being debated, but the new farm law sets in place a program that could quickly alter dairy farming in the United States.

The program likely will leave us with fewer but larger farmers, reduced production capacity, and less incentive to produce because of lower prices. Farmers will be forced to look at dairying in more businesslike terms. It may no longer be affordable as a way of life. And all of this will impact directly on dairy cooperatives.

John Mengel
ACS Agricultural Economist



Impact of Support Changes

Dairy is the first major title of the new law and deals with the milk price support program, milk marketing order program, and other miscellaneous provisions. New and revised authorities will impact directly on cooperatives and their members.

On the question of price supports, dairy cooperatives fought hard to incorporate provisions for standby supply management authority. They would have allowed farmers to make temporary adjustments in production when needed to balance milk supply and demand. The law provides for a one-time resource reduction to bring supply in line with demand. Future imbalances would be dealt with by price alone.

To reduce dairy resources, a whole-herd buyout program will pay dairy farmers to slaughter their herds during the next 18 months and remain out of milk production for the next 5 years. The program will be partially financed through an assessment on dairy farmers.

Dairy economists speculating on results of the program, believe enough farmers will decide to go out of the business to reduce the national productive capacity by 12 billion pounds. That's the target specified in the law.

Although remaining dairy farmers may continue to increase production, much of this increase may be used in additional consumption of fluid and manufactured soft dairy products. Fluid milk sales have strengthened and are expected to remain strong, reflecting in part a major commitment by dairy farmers and cooperatives to the national dairy promotion and research program.

Thus, if 12 billion pounds of milk is eliminated by the herd-buyout program, it could translate almost directly into a comparable reduction in the amount of milk manufactured into butter, nonfat dry milk, and cheese.

Cooperative plants, rather than their competitors, are more likely to feel the brunt of reduced milk volumes. Cooperatives in most markets balance the fluid needs by converting the surplus into manufactured products such as butter, nonfat dry milk, and cheese. This already causes swings in the amount of milk available for manufacturing and makes some cooperative plants (primarly those processing butter and nonfat dry milk) inefficient during part of the year.

Non-cooperative manufacturers more heavily concentrated in cheese manufacturing will strive to maintain milk supplies by drawing them away from cooperative plants.

As the market comes closer into balance, cheese and butter prices likely will rise above support purchase prices. Nonfat dry milk prices, however, are expected to remain at support level for some time. Thus, milk used to make cheese will have a higher value than milk used to make butter and nonfat dry milk. This would give cheese processors a competitive advantage and enable them to draw milk away from butter and nonfat dry milk plants.

So the need to reduce processing capacity by closing plants will impact heavily on cooperatives. Those with single plants may have difficulty maintaining their capacity in them at economical levels. Multi-plant cooperatives may be somewhat better off with their flexibility to move milk around, close some plants, but keep others operating at a profitable capacity.

Another result of the reduced volume of milk will be an increase in the competition for milk available. When supplies were reduced in 1984 because of the milk diversion program, increased competition for the available supplies during the fall caused the U.S. manufacturing grade milk price to increase 70 cents above the support level.

With decreased volumes in late 1986 and 1987, we can again expect competition to raise milk prices, thus adding to cooperatives' cost for raw milk. If product prices, especially for butter and nonfat dry milk, don't increase to cover the increased competitive cost of raw milk, cooperative margins will be further reduced.

The combination of higher costs because of plants operating at lower capacities and the higher cost for raw milk, due to intensified competition, could severely strain some cooperative organizations. Cooperatives with just one or two processing plants, may try to combine their resources with others so they can control enough milk to operate economically.

In terms of member impact, proportionately more members than nonmembers of dairy cooperatives may participate in the buyout program. Although few if any cooperatives will actively promote members' participation in the buyout program, many cooperatives will feel responsible to give members sufficient information so they can make rational economic decisions. Noncooperative members may not be as well informed about the program and therefore less likely to participate.

Impact of Order Changes

The 1985 farm legislation also amended the Federal milk marketing order law, raising Class I differentials in 35 of the 44 Federal order areas. Authority also was provided for payments from the producer settlement fund to cooperative and noncooperative handlers performing services of benefit to all producers in the market.

The new Class I differentials become effective May 1 and will remain at those new minimum levels for at least 2 years.

Class I differential increases range from 8 cents in the Upper Midwest marketing order to as much as $1.03 in the Southeastern Florida order.

New Class I differentials are for the base zones of the marketing areas. Public hearings will be necessary in most of these areas to prevent price misalignment problems in the outer zones. Most of the burden (in terms of time and money) of developing price location proposals and supporting them at public hearings will fall on dairy cooperatives.

The increase in Class I differentials may discourage participation under the buyout program. Participation level in an area will depend upon how much the Class I differential for the market was increased and the proportion of milk used in Class I. In late March, USDA was evaluating and accepting contracts under the program. Total and regional impacts won't be known until later.

In the past, USDA has maintained the support program was a national program and successfully resisted attempts at regionalization. Regardless of regional participation, cooperatives in the upper Midwest will feel much of the impact of increased competition for milk. To the extent production is reduced in areas south of Minnesota and Wisconsin, the great pool of milk in that area will be drawn upon to supply deficit fluid needs of other areas.

In most Federal orders, an over-order charge on Class I milk is made by cooperatives primarily to cover the cost of servicing the Class I market. In some cases, these over-order charges also reflect supply and demand conditions.

With an increase in the order minimum Class I prices, some buyers may object to the size of particular over-order charges. They ranged from a few cents in some markets, to more than $2 in Florida in January 1985. To the extent cooperatives will be able to maintain over-order charges with the new higher minimum Class I-price structure, member producers will receive the total benefit of the increase in Class I differentials.

However, some Class I purchasers may balk at paying the same over-order charges on top of new higher Class I prices and force cooperatives to reduce these charges. If this happens and the cost of servicing the Class I market is not reduced, cooperative members won't receive the total benefits of the increases in the Class I differentials. This will impact negatively on the ability of cooperatives to maintain membership because nonmember producers will receive the total benefit of the increased Class I differentials.

If Class I over-order charges decline, pressure will increase to use the new legislative authority and promptly amend milk marketing orders to provide for payments from the producer-settlement fund for the performance of marketwide services. Identification of such marketwide services, related costs, appropriate reim-

Co-ops Need Farmer Support to Survive, Iowa Poll Shows

Cooperative need farmers support to survive the current economic depression in agriculture, a group of Iowa farmers indicated in response to a poll taken last summer. Results of the poll conducted by Paul Lasley, rural sociologist at Iowa State University, at the request of the Iowa Institute of Cooperation's cooperative month committee, were published in a recent issue of the institute's monthly newsletter. While most respondents agreed on the need to support cooperatives, they also felt cooperative help larger farmers more than smaller ones. Here are the results of cooperative questions in Prof. Lasley's Iowa Farm and Rural Life Poll:

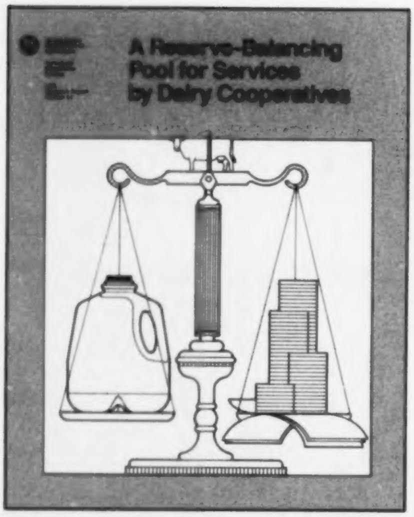
Co-op Characteristics:	Uncertn.	Not Very Imprtnt.	Somewhat Imprtnt.	Very Imprtnt.
Honest Busin. Practices	4	2	11	83
Quality of Service	4	3	15	78
Quality of Products	5	5	21	69
Competitive Pricing	5	6	24	65
Access to Markets	5	6	29	60
1 Member 1 Vote	8	8	26	58
Patronage Refund	5	23	38	34

In General:	Strongly Agree	Somewhat Agree	Uncertain	Somewhat Disagree	Strongly Disagree
Large co-ops help improve farm prices more than small ones	4	24	32	25	15
Co-ops help small farmers more than large ones	**4**	**16**	**26**	**33**	**21**
Farmers must support co-ops to survive in economic climate	14	32	20	21	13
Co-ops need my support to survive	**27**	**38**	**16**	**10**	**9**
I don't see any differences between co-ops and non-co-ops	8	22	19	30	21
Co-ops provide better service and products than non-co-ops	**6**	**17**	**24**	**36**	**17**
Co-ops generally provide better prices than non-co-ops	5	23	22	33	17
Co-ops not as important today as in the past	**8**	**22**	**26**	**28**	**16**
I have less influence than I should in determining direction of my co-op	14	33	32	15	6

bursements, and assurance of performance will be a difficult challenge for cooperatives. However, the orders must be amended if cooperatives expect to maintain their competitive pay position in the country.

Among services performed by a cooperative benefiting all producers is the important market-balancing function. It assures adequate supplies for the market or disposes of surplus fluid milk. The balance created has the effect of stabilizing both prices and markets for all producers.

Costs associated with such functions may result from transporting milk in or out of a market depending upon demand or from maintaining processing facilities used only seasonally to handle surplus milk. Costs and benefits of such services are readily recognized, but hard to quantify. The task must be conducted by dairy cooperatives to quantify these costs and amend the orders. To aid cooperatives, USDA's Agricultural Cooperative Service (ACS) has published results of its economic research on the subject. (K. Charles Ling, A Reserve Balancing Pool for Services by Dairy Cooperatives, ACS RR No. 51, August 1985).


A Reserve-Balancing Pool for Services by Dairy Cooperatives

Export Enhancement Programs

The 1985 farm legislation also established a dairy export enhancement program to begin 60 days after the date of enactment (Feb. 21, 1986) and end Sept. 30, 1989. Purpose of this program is to increase dairy product exports by the private sector. The law authorizes the Commodity Credit Corporation (CCC) to make incentive payments in cash or commodities in exchange for the export of dairy products in addition to exports that otherwise would have been made in absence of the program. Payments will be made on a bid basis.

Enterprising dairy cooperatives may use this program to develop the beginnings of an export market for particular American dairy products. Although CCC will continue to export dairy products during this period, there are particular commodities CCC doesn't have, but for which some world market exists. Two such dairy products are unsalted butter and dry whole milk. If exported by dairy cooperatives, they would be eligible for a payment in cash or products. If made in product, the total solids content of the payment can't exceed the total exported from the United States. The challenge to cooperatives is to be innovative in seeking foreign markets and supplying them with the products they want.■

With Participation Comes Control: Heartbeat of the Cooperative

Recently, members of a financially troubled agricultural supply cooperative held a memorable meeting. They heard reports on its financial condition, asked questions, and then voted to dissolve their cooperative. Some sensed it was coming. Others were stunned. Many asked, "How could this happen?"

Judging from the tone of discussion and type of questions asked, it was apparent either many members had not attended their cooperative's meetings or the board and management had not fully informed the members.

With this scenario, Lawrie Kull, chief operating officer of the Lake to Lake division of Land O'Lakes, used his column in the cooperative's newsletter to encourage farmer participation in the activities of their cooperative. While aimed at his particular dairy cooperative's members, Kull's thoughts have wide application to the entire cooperative community.

"There is a lesson to be learned from this unfortunate incident," Kull said. "It is the duty of the board and management to fully report to members and likewise the duty of members to attend their cooperative's meetings. You have an investment in your cooperative. It is your marketing arm and an extension of your dairy farm.

"It's certainly worth part of a day...to listen to the reports, elect those who represent you, vote on resolutions, and ask questions. Some complain meetings are too long, contain too many reports, and too much financial information. However, it's important for members to know the facts, " he said, while suggesting it was management's responsibility to organize meetings so the program moved crisply.

"Much is happening in your cooperative and the dairy industry," he emphasized. "It is your responsibility to be informed, exercise control, and voice your opinions at meetings."

Kull concluded, "It is our duty to report and your duty to attend. Beyond that, I hope you would want to attend."

Credit Co-ops Provide Education Leadership in West Germany

COOPERATION
European Style

Dr. Friedrich Hausman

Editor's Note: Last September, three staff members of Agricultural Cooperative Service visited cooperative organizations in five European countries as part of a scientific and technical exchange program offered by USDA's Office of International Cooperation and Development. ACS Administrator Randall E. Torgerson, Thomas Gray, and Gene Ingalsbe visited The Netherlands, West Germany, Denmark, Sweden, and Norway. The purpose of the trip was to: (1) identify researchers and practitioners in the areas of member control, involvement, and education, and (2) determine whether techniques and innovations might be beneficially shared with cooperatives in other countries in an international symposium. Preliminary findings from the trip are being reported in a series of articles. The first presented an overview of the educational perspective of cooperative leaders in the five countries and a more specific description of the educational programs and activities in The Netherlands. This one discusses educational programs, activities, and issues in West Germany.

Gene Ingalsbe

Director of Information and Education

West Germany's cooperative educational system was largely built by the credit sector. A motivating factor was the requirement by law that accredited training was necessary to get a job in credit.

Primary education responsibility is with 11 regional associations within the German Raiffeisen Union (DRV), part of the apex organization, German Cooperative and Raiffeisen Union (fig. 1).

"Member relations is not a question of law," said Dr. Friedrich Hausmann, DRV deputy general secretary. "It's clear these are rights and duties of members. It's up to members to utilize these rights, and know this is beneficial."

But DRV helps in a number of ways, Dr. Hausmann added. In carrying out its member relations and educational efforts, DRV:

- tries to give good information on pertinent issues, such as the merger process;
- sends staff people to some 300 district meetings to deal with existing problems and field questions;
- encourages cooperatives to send informational materials to members;
- publishes a newspaper as a supplement to regional publications; and
- conducts an annual assembly for members and a general assembly every 2 years for all farmers.

DRV has constructed a large graphic exhibit in its headquarters building, tracing the evolution of German cooperatives. This is used as an aid during seminars for various groups, including young farmers.

Bank Pushes Education

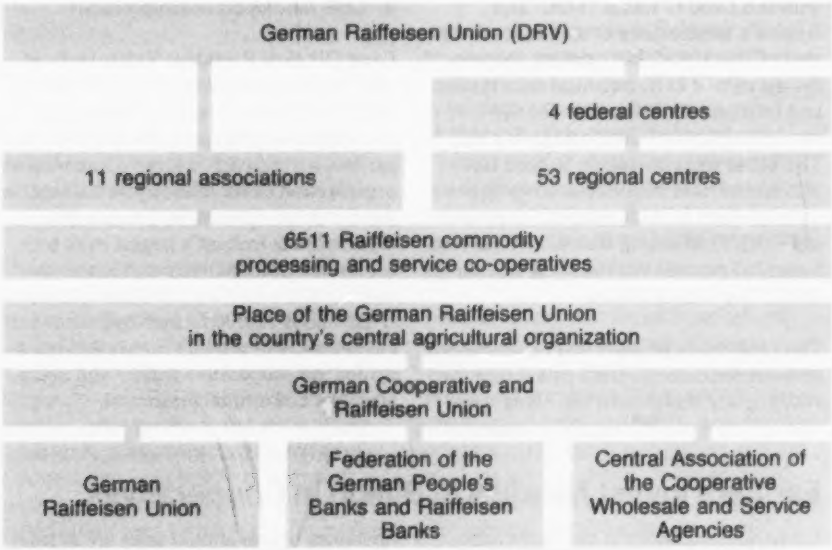
The German Cooperative Bank (DG) bought a castle at Montabauer in 1970 for a federal training center. DG operated and funded the center until 1981, when financing was shifted to all cooperatives through a system of dues and course fees. The facility is recognized as offering the highest level of cooperative education, primarily for hired managers and other employees.

Economist Herr Hennigsen

Dr. Horst Seuster

Dr. Bernhard Grossfeld

Figure 1—West German Cooperative Apex Organization


German Raiffeisen Union (DRV)
4 federal centres
11 regional associations
53 regional centres
6511 Raiffeisen commodity processing and service co-operatives
Place of the German Raiffeisen Union in the country's central agricultural organization
German Cooperative and Raiffeisen Union
German Raiffeisen Union
Federation of the German People's Banks and Raiffeisen Banks
Central Association of the Cooperative Wholesale and Service Agencies

Montabauer has a staff of 10 teachers, including 3 for agriculture. However, the staff's main function is to develop curriculum that others teach.

As is often the case in the U.S., said Herr Hennigsen, DG economic analyst, "the farmer will leave the cooperative for a few cents in price. It is important to explain what a cooperative can do in total. The cooperative is only as good as its members.

"Our basic problem is the belief that members have to be treated the same, but the member who supports the cooperative must get better treatment. It is a sensitive area, but understandable. Examples could be price differentials for quality and quantity."

Hennigsen believes "every cooperative at the beginning of the year should set goals to support member relations efforts and then report on accomplishments at the end of the year."

"In smaller multipurpose cooperatives, members are in control," Hennigsen continued. "But in larger cooperatives, members and directors are not sufficiently trained to control management." He said the situation is improving slowly but isn't getting full attention.

Members Get More Attention

A half-dozen institutes associated with universities deal with rural problems, including cooperative research and education to varying degrees.

The most notable is the Institute for Cooperative Research, part of the

University of Munster, the second largest university in West Germany. The institute conducts research, publishes various types of materials, and carries on a teaching program.

The institute has a staff of nearly 30, including 4 professors. Some funds come from the private sector, but primarily the institute is publicly funded. The institute publishes books, pamphlets, articles, and theses. Additionally, one of the professors, Dr. Bernhard Grossfeld, co-edits the countrywide German Journal on Cooperative Research.

Examples of subjects covered in a curriculum for a typical class of 30 to 40 students include the special problems of managing a cooperative, laws governing cooperatives, and how to control cooperative management.

Focus Toward Members

Dr. Grossfeld said the trend is to focus work away from management and toward members. "Study is needed on director liability," he said. In credit cooperatives, the law requires two officials be fully responsible for the cooperative's activities. The second person is often a director where "a double standard is acknowledged for full- and part-time directors."

A basic question about member participation, Dr. Grossfeld continued, "is who makes the proposals whether it is for member elections or on other issues. Committees of members submit proposals, but the question is where did the proposals really originate." His inference was management often controls the process.

"What's important is to keep members in the decisionmaking role in every level," he said. "The power to make proposals must stay with members."

"The institute sometimes joins forces with the farmers' union to defend members' interests," he said. "Members are not aware of management attempts to control operations."

Co-op Education Research

At the Institute for Rural Matters, Justus van Liebig University in Giessen, two projects are underway in cooperative educational research under the direction of Dr. Horst Seuster.

Dr. Seuster, professor in farm management, said "Innovation usually comes from a singular source, and that often translates to the cooperative being only as good as its manager."

Nevertheless, Dr. Seuster has surveyed 110 cooperatives asking "What are you doing for your members? I think they're doing more than we think. We got answers from 98, but results aren't yet published."

His most recent survey posed 100 questions to 10 percent of the country's farmers. "Questions to members were quite basic, such as: 'What's the name of your manager? When did you last attend a meeting?' We want to find out what members are thinking."

However, he noted that assessing the results of this research will be qualified—as should most research results—by the axiom, "Soup is never consumed at the temperature it's cooked." ■

LOL Develops Irish Cooperative Connection

An agreement was recently concluded between Land O'Lakes (LOL) and Ireland's largest dairy cooperative, Avonmore Creameries, Ltd., paving the way for the sale of LOL technical information and formulas to Avonmore for the manufacture of a butter-margarine blend. The blend went on sale in Ireland last November. It is manufactured by the same process LOL developed for producing Country Morning Blend, a 40 percent butter/60 percent vegetable oil spread, sold in the United States.

The Irish-made product was reformulated to accommodate the Irish palate by substituting soy oil for corn oil, along with several other modifications. Avonmore was assisted in the reformulation process by LOL food operations specialists.

Land O'Lakes President Ralph Hofstad said, the agreement was a "major step in our international program. We regard Avonmore as a dynamic partner and are particularly pleased to forge a link with an organization of its status in Ireland and in the European Economic Community." Avonmore is Ireland's largest milk processor and grain handler and is also involved in the feed and fertilizer business. It has about 11,000 farmer-members and customers who provide inputs and markets for the cooperative's dairy and grain products and animal feeds.

Farmers Invest Nearly $30 Billion in Cooperatives

Economic Indicators of the Farm Sector, 1984, published by USDA's Economic Research Service, indicates farmers have $29.8 billion invested (net worth) in cooperatives (includes rural electric, farm credit, and miscellaneous, along with marketing and purchasing). The report lists investments by sales class. It says operators whose annual sales are at least $500,000 account for 32 percent of farmers' total investment in cooperatives; those with farm sales exceeding $250,000 account for 50 percent; and those with annual farm sales $100,000 and above account for 75 percent.

Danes Use Problem Solving Techniques To Keep Members Involved in Decisions

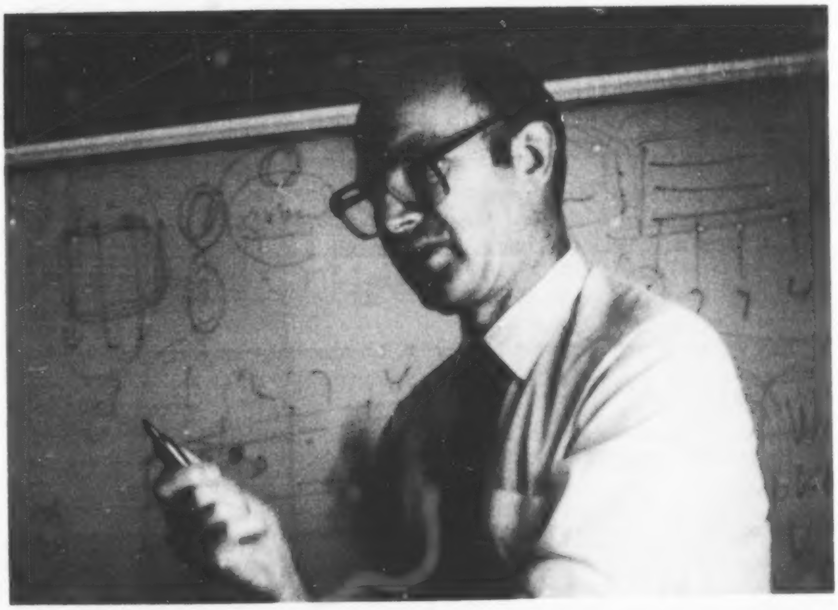
Editor's Note: This paper is based on a presentation and correspondence with Anders Pedersen, Agricultural Information and Conference Confederation, Copenhagen. This is another article in a series stemming from a tour of European cooperatives last fall by staffers from Agricultural Cooperative Service as part of a scientific and technical exchange program. Two articles appeared in the March 1986 issue of Farmer Cooperatives magazine.

An enduring problem in U.S. agricultural cooperatives is keeping members involved in decisionmaking. In small cooperatives, members may not believe in the effectiveness of the organization. "We can't do anything. We can't have any effect. The organization is too small." In large cooperatives, members may not participate because as individuals they feel their numbers aren't great enough to be of influence. "How can I affect the decisionmaking in the cooperative. I'm just a small unimportant cog in a big machine."

Danish cooperative organizers and educators have begun testing a conference procedure aimed at getting members involved in decisionmaking. As yet, they haven't worked through the entire process with one organization.

The procedure used in Denmark is oriented to solving specific problems. It is termed a "Problem Solving Conference" (or in Danish, "Problem Behandlings Konference.") The conference has two purposes—solve general problems or a specific major problem and get as many conference participants involved in decisionmaking as possible. In terms of longevity of the cooperative, increased participation may be more important than actually solving perceived problems. Members involved in the decisionmaking may feel connected to the organization and are more likely to participate. Furthermore, the cooperative is better shaped to meeting member needs and wants.

Thomas W. Gray
ACS Rural Sociologist


Anders Pedersen

A conference can be divided into six phases and three participant groups. Phases include orientation, information, possibilities, decisionmaking, accomplishment, and approval. Groups include a general assembly, functional groups, and grassroots working groups.

Functional groups normally reflect preexisting sub-organizational divisions, such as finance, marketing, member relations, and public relations, and/or sales, distribution, administration, and pricing or others. The general assembly and the working groups should be broad based, representing the breadth of memberships. Predominant working groups should include people who don't routinely work together on decisionmaking. In large cooperatives, these members might be delegate representatives.

Prior to conference meetings, the cooperative leadership must make certain preparations. These include a program specifying times allocated to each phase, a matrix indicating in what groups participants are members, and a major problem specified for discussion with subproblems delineated for each working group.

Conference Phases

The conference begins with a meeting of the general assembly and the orientation phase. During orientation, general information is presented on format, functional, and working group participant assignments, and the decisionmaking process to be used. There is time during this session for discussion, changes in assignments, and other clarifications. By the end of this phase, participants gain a sense of the framework and procedures of conference decisionmaking.

The specific problem being handled is introduced in the identification stage. Desired new end-points are discussed. Barriers preventing movement from the problem situation to the desired end points are reviewed.

Figure 1—Participant Matrix

	Western Division	Eastern Division	Northern Division	Southern Division	
Finance	A1	A2	A3	A4	Functional Group A
Marketing	B1	B2	B3	B4	Functional Group B
Public Relations	C1	C2	C3	C4	Functional Group C
Member Relations	D1	D2	D3	D4	Functional Group D
	Working Group 1	Working Group 2	Working Group 3	Working Group 4	

Brain-storming sessions are used in the possibilities phase. Members are asked to offer alternatives for achieving desired ends. They also are asked to distinguish among proposals, identifying those supplemental to each other, and other clear-cut substitutes and alternatives. This is strictly an idea-creating phase. Care must be taken not to stifle brainstorming by evaluating the acceptability of different proposals.

Proposals are evaluated in the decisionmaking phase. Advantages and disadvantages of the alternative and supplemental proposals are weighed. Specific proposals are selected for action.

In the accomplishment phase, a detailed plan for action is prepared. This could include who shall do what, where, and how plus how to report, to whom, and what constitutes completion.

All plans from the accomplishment stage are presented to the general assembly for approval. If some proposals aren't acceptable to individual working groups, they have the option to veto and reach a compromise.

Group Dynamics

Except for the orientation and approval phase, every phase has four separate sessions. In the first session, the general assembly is given an introduction to the specific phase. The introduction is followed by a working group session, a functional group session, and a second working group session or four sessions. The working groups create the ideas and hopefully can bring fresh insights and direction to the problem at hand. Functional groups provide moderation as well as support and direction to working group proposals.

Generally, a structure of conference groupings is set up in matrix form (see Fig. 1). In our example, there are eight groups; four functional groups and four working groups. Functional group A contains members and employees who routinely are part of decisionmaking involving finance, plus participants representing all geographic divisions of the membership from the western division through the southern division. Functional group B consists of members and employees who routinely are part of decisionmaking involving marketing, plus member participants representing members from the western through southern divisions. Similarly, functional groups C and D have members and employees who routinely are part of decisionmaking involving member and public relations respectively, plus member participants representing all geographic regions from the western through southern divisions.

Working group "1" contains all participants representing western membership division plus members and employees serving in a decisionmaking capacity in the four functional areas. Working group "2" is made up of all participants representing the eastern membership division plus members and employees serving in a decisionmaking capacity in the functional areas. Working groups "3" and "4" are similarly structured.

These groupings could be specified by quite different criteria. Working groups might be divided by a completely random process where members simply draw lots for each group or could be structured by individual member interests. Functional groups might be varied by operational geographic location or some other operational division. Whatever the criteria, care must be taken to ensure opportunities for spontaneity and creativity are maximized.

Problem Handling

Sub-problem discussion begins with the working groups. These members, in general, will not have seen the problem before. They can bring fresh insights and new alternatives more attuned to member needs. Starting with functional groups could slide the direction of the conference back into stale and worn out strategies. In the words of one Danish educator, "One does not expect wild ideas from the functional groups. Had they had any, there would have been no need to call a conference." The work group "works."

With adjournment of initial working group sessions, each member moves to his respective functional group meeting. A representative from each working group reports on its activity. Members of each functional group then comment on the reports, either approving, rejecting, and/or suggesting modifications.

After the functional groups adjourn, members return to their original working groups. They report on the reactions each functional group had to their sub-problem proposals. Members of each working group discuss whether the feedback offered is compatible with the handling of their sub-problem proposals. Modifications are made. A final draft of results is prepared for the next phase of decisionmaking.

In the final approval phase of the conference, working groups present their findings to the general assembly. Various sub-problems may be vetoed or changed. Finally, the entire process is vetoed or approved.

Whether or not problems are resolved, the process provides tremendous opportunities for information exchange. Every member at the conference at a minimum is briefly informed of the major over-all problem and each sub-problem. Members will have the opportunity to provide direct and active input into decisions.

The process still tends toward top-down decisionmaking. The leadership initially defines the major problem, determines sub-problem divisions, and makes initial sub-group assignments. Top-down specification may be necessary for coordination and overall conference feasibility. However, working groups may reject the sub-problems and report why. In the "bottom-up" process, if major grassroots discontent is broad and pervasive, it will soon be heard in the rejection of all sub-problems by working groups. Other questions will be raised.

Anders Pedersen, developer of the process for the Agricultural Information and Conference Confederation in Denmark, suggests 2 or 3 days are needed to go through all phases. However, there is no need to do all phases in one sitting. The process might be enhanced with intervals—days or weeks—planned within the routine. The extra time could be used to reorganize, check with home constituents, or simply get fresh participants. Some members are better than others at certain phases such as exploring possibilities, others at decisionmaking, and others at accomplishments.

No matter how it is conducted, the activity is bound to bring more members into the decisionmaking process. This will enhance commitment as well as understanding of the cooperative by the members, and of the members by the leadership. ■

Legislation Expands Financing Options of BCs

An amendment to the recently approved Food Security Act of 1985 (farm bill) will expand lending options available to district Banks for Cooperatives (BCs) for financing rural electric and telephone cooperatives. The law permits BCs to extend credit to cooperatives, other entities, and their subsidiaries that have received a loan, loan commitment; loan guarantee from the Rural Electrification Administration (REA) or received a loan or commitment from the Rural Telephone Bank; or been certified by the REA Administrator to be eligible for a loan, loan commitment, or loan guarantee. Prior to this amendment, rural electric cooperatives were eligible to borrow from the BCs only if 60 percent of their voting membership was held by farmers.

Ocean Spray Acquires Milne Fruit Products

Milne Fruit Products, Inc., Prosser, WA, has been purchased by Ocean Spray Cranberries, Inc., under an acquisition agreement valued at $6 million. Under the agreement, Milne will become a wholly owned subsidiary of Ocean Spray. President Ray Milne will report to Ocean Spray President Hal Thorkilsen.

Milne was founded in 1975. It is located in the Yakima Valley, the center of a prime fruit growing area. The company manufactures a wide variety of fruit concentrates for industrial markets.

The agreement will permit the Milne Company to operate autonomously to ensure the continuity of operating efficiency. Ocean Spray does not anticipate any changes in personnel or operating philosophy at Milne. The company has 24 full-time employees and 35 during peak season. The company also has strong ties to fruit growers throughout the area.

"The Milne acquisition is part of our long-range strategic plan for Ocean Spray," said Thorkilsen. "With products in the juice concentrate area, Milne is a perfect fit for Ocean Spray. As one of the top companies in the juice-drink industry, Ocean Spray can complement its product offerings, facilities, and technical skills as a result of this merger," Thorkilsen said. Milne's sales have increased from more than $5 million in fiscal 1981 to almost $10 million in fiscal 1985. It also has had a good record of margins in the past 5 yrs.

PEOPLE NEWS

John S. Black...

was elected president of United Cooperatives of Ontario (UCO) at a board reorganization meeting in Toronto after the cooperative's 39th annual meeting. Black has been a UCO director for 9 years, 4 as first vice-president, and 2 as second vice-president. Murray J. Allen, elected to succeed Black as first vice-president, has been on the board since 1979.

Jim Mullins...

grain and livestock farmer from Corwith, IA, has been elected a director of Omaha Bank for Coperatives replacing Mel Todd. Mullins represents 37 Production Credit Associations in the district. He is active in Iowa and national cattleman's associations, and national corn and soybean associations.

Robert Vaughn...

succeeds James E. Click as general manager of Maryland and Virginia Milk Producers Cooperative Association, Inc., at Arlington, VA. The appointment by the board of directors was effective in mid-January. Although retiring after 22 years as manager, Click will continue to hold the secretary-treasurer position he has had since 1964. Vaughn is a graduate of the University of Maryland and has served as field representative and division manager at the cooperative's manufacturing plant in Laurel, MD. The 1,350-member cooperative operates in five States. Since 1920, it has supplied raw milk to the majority of processors in the Washington, DC, and Virginia markets.

Donald L. Brick...

vice president of the manufacturing division of Swiss Valley Farms, Co., Davenport, IA, has been selected to serve on the board of directors of the United States Cheese Makers Association. The association is a new group organized for the purpose of representing, educating, and informing its members regarding national and world cheese market conditions. The organization's headquarters are in Madison, WI. Subsequently, Brick was named to the board of directors of the Whey Products Institute based in Chicago. The institute's chief function is for research and development of whey products.

Richard W. Bonney Jr., ...

who retired as president of the Columbia Bank for Cooperatives in January, was honored by the Florida Council of Farmer Cooperatives at its 48th annual meeting. Aubrey Fowler, past president of the Production Credit Association of Live Oak, FL, and awards chairman of the Florida Council, presented the Supercooperator Award to Bonney. Aubrey applauded Bonney for his lifetime record of superior service to and for the Florida council and agricultural cooperatives in Florida.

At Omaha Farm Credit Banks...

Leo Allmendinger of Shelby, SD, has been elected chairman, and James D. Hendry, Lysite, WY, vice chairman of the Omaha District Farm Credit board of directors for 1986. Allmendinger, who produces wheat and other small grains, has been on the district board since 1969. Hendry, a commercial cattle rancher, has been a director since 1962.

At Louisville Farm Credit District...

Steven J. Montgomery has been named acting president and chief executive officer for all three district banks by Chairman J. Wayne Wright. Montgomery had previously headed the district's Bank for Cooperatives. Montgomery's appointment follows the resignation of former FIBC/FLB President Raymond Schlader. A four-member search committee has been named by Wright to seek candidates for the combined bank president position. Although the banks will share common management and operational structures, it does not affect the legal organization or financial structures of the individual banks, Wright indicated.

At CENEX in St. Paul...

Edward J. Melby, Molt, MT, has been elected chairman of the board of directors. Melby is president of Lakeview Land and Livestock Ranch near Molt, has served on the board since 1962, and has represented CENEX on the National Cooperative Refinery Association board for 15 years. Other officers chosen were Dixie Lee Riddle, Mead, WA, first vice-chairman; Elroy Webster. Gaylord, MN; Arnie Weisenbeck, Durand, WI, secretary-treasurer; and Richard Traphagen, Columbia, SD, as assistant secretary-treasurer.

At Southern States, Inc...

Richard F. Price has been named chairman of the board of directors at Richmond, VA. Price has served on the board since 1968. The Phoenix, MD, farmer was named vice chairman of the board in January 1983. He replaces M. Willard Miller, who served as chairman for the traditional 3-year period. Miller, who was re-elected to a 3-year term as a director last fall, remains on the board. Miller recently was given a special citation by the Virginia Agribusiness Council for his "devotion to the betterment of Virginia agriculture." Price is a livestock and grain producer. M. R. (Dick) McClung, a Morgantown, WVA, livestock producer, was elected vice chairman.

LEGAL CORNER

Directors' Personal Liability Explored in Louisiana Case

James R. Baarda
ACS Agricultural Economist

A director's job isn't easy. In addition to the usual tasks and responsibilities, individual directors may be held personally liable in some cases for decisions they make leading their cooperative to illegal behavior. The personal liability issue may be raised in many circumstances. An example was discussed in a recent Louisiana Court of Appeals decision.

Events leading to *American Grain Association v. Canfield, Burch & Mancuso* (471 So. 2d 1125, La. Ct. App. 1985) began with a lawsuit by a cooperative against its accounting firm. The cooperative alleged it employed an accounting firm to prepare certified financial statements and audit internal controls. It said financial statements prepared for the cooperative were not compiled in accordance with generally accepted accounting principles and the accounting firm failed to submit any reports concerning inadequacy of the cooperative's internal controls.

The cooperative said it relied on the accounting firm's financial and internal control representations, and as a result made unauthorized dividend payments, causing more than $10 million damages to the cooperative. The court decision does not identify dividend payments as dividends on capital stock or patronage "dividends."

The accounting firm denied any liability for the cooperative's unauthorized dividend payment. The firm also said if it were eventually found liable, it had a right to recover from cooperative directors. The firm sued three directors individually, alleging the directors "were in a superior position of knowledge with respect to the affairs of the corporation and that the proximate cause of any loss sustained by the corporation was the failure of (three directors) properly to carry out their duties as members of the board of directors."

The trial court dismissed claims against directors and the accounting firm appealed. The appeals court held allegations against directors couldn't be dismissed without a trial.

Director Liability Law

Most farmer cooperatives are incorporated under special State cooperative statutes. Though separate from business corporation statutes, cooperative statutes do not usually address all areas of corporate law. Where this happens, cooperatives are subject to corporate law just as any business corporation. Cooperative statutes do not usually discuss director liability and typically corporate law applies to farmer cooperative directors. Such was the case in Louisiana.

The Louisiana corporation statute describes director liabilities when dividends are paid contrary to law. "If any dividend shall be paid in violation of this Chapter, or if any other unlawful distribution, payment or return of assets be made to the shareholders,...the directors who knowingly, or without the exercise of reasonable care and inquiry, voted in favor thereof shall be liable jointly and severally to the corporation, or to the creditors of the corporation, or to both, in an amount equal to the amount of the unlawful distribution."

Directors argued they could only be held liable to creditors and the corporation under language of the statute. The court held, however, though independent rights of action against directors is limited to the corporation and creditors, the accounting firm still had a right to bring action against directors as possible contributors to the firm's liability.

Directors also claimed immunity from liability because of another part of Louisiana's corporate law. The statute says "a director acting in reliance, in good faith,...on financial statements or other records of the corporation represented as accurate by the president or other officer in charge of the corporation's books of account or of such records, or stated in a written report by independent or certified public accountants fairly to reflect the corporation's financial condition, shall not be held liable under the provisions of this Section." The court emphasized "good faith" reliance.

The court said directors must show they met terms of immunity spelled out in the statute. Because the trial court had dismissed the suit, no facts were presented on that question. The case was sent back to the trial court to determine, among other things, if directors actually relied on the accounting firm's reports to make what turned out to be unauthorized distribution, and if reliance was made in good faith.

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MANAGEMENT ☞ TIP

Direct Member Investment Alternative Capital Source

Rex Clark
Louisville Bank for Cooperatives

Cooperatives have capitalized operations using basically two financing methods: internal financing or member investment, and external financing or debt.

Member investment initially came through a cash outlay or direct investment by founding cooperative members. Today, direct investment can be an alternative capital source when cooperatives undertake large projects requiring cash outlays. In return for cash, members receive shares of either common or preferred stock. The former offers members voting rights and the use of the co-op's services; the latter offers dividends.

Perhaps a more important source of member investment comes from retained earnings. Most cooperatives operating successfully today are doing so because of their ability to generate net margins in the past. When net margins are made, a portion is returned to members and the rest is reinvested in the cooperative. Retained earnings help fund future operations and act as a cushion to protect member equities against adverse times.

As cooperatives grow, outside money is often needed to take advantage of growth opportunities. Cooperatives have traditionally been funded from outside sources in two ways: through banks and debentures. Of course, these two ways of raising capital have a cost attached—the interest rate.

In the past, cooperatives have generally been under-capitalized with member equity and have relied too heavily on outside money. In the future, as cooperatives face increasing competition from other corporations, raising sufficient capital will become the major challenge.

As cooperatives look to the future, direct member investment or debentures will become less available. Bank debt will remain an option for successful cooperatives. Margins will remain the best and cheapest source for financing operations and taking advantage of growth opportunities. But what other methods will become important as cooperatives seek to raise capital?

As the Farm Credit System study, Project 1995, concluded, structural change is expected by the 1990's. To pool resources sufficient to maintain or increase market share, cooperatives may have to consolidate or merge operations. This provides opportunities to reduce overhead, provide expanded services, and increase product sales.

When potential exists for two or more cooperatives to jointly initiate a mutually beneficial project, they can share in the financing and risks. Joint ventures with non-cooperative organizations may also become more prevalent.

Leasing has grown significantly in the past few years as a financing tool. Many cooperatives are benefiting from leasing by passing on the tax benefits to the lessor, and thereby reducing the effective capital costs of the leased item. Other methods that may become more common in the future include: per- unit retains—retaining a set fee or percentage of each product sold to or from the cooperative; generating retained earnings from nonmember business; and, selling or buying assets to ensure the cooperative's capital strucure is financing only productive assets.

Although all capitalization methods will be important to cooperatives in the future, they all hinge on the ability to make and retain earnings. Successful cooperatives will continue to emphasize making net margins and complement the goal with other methods of raising capital to ensure financially sound organizations will exist tomorrow.